

# **EXHIBIT 31**



#### FORM 4 (continued)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned  
(e.g., puts, calls, warrants, options, convertible securities)**

## Explanation of Responses:

See continuation page(s) for footnotes

<sup>\*\*</sup> Intentional misstatements or omissions of facts constitute Federal Criminal Violations.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB Number

3/6/02  
Date  
  
Signature of Reporting Person

Page 2 of 3 pages Page 2  
SAC-1424-05-000

Schaepe, Chris J.  
c/o Weiss, Peck & Greer LLC  
555 California Street, Suite 3130  
San Francisco, CA 94104

Terayon Communication Systems, Inc. (TERN)  
February 2002

Page 3 of 3 pages

- (1) Shares acquired per a release from an escrow indemnification agreement between Weiss, Peck & Greer LLC and Imedia. Imedia merged with Terayon Communications Systems in 1999.
- (2) Mr. Schaepe is a General Partner of WPG Venture Partners III LLC, which is a general partner of the entities associated with Weiss, Peck & Greer LLC. Mr. Schaepe may be deemed to have voting and investment power over the shares held by the entities associated with Weiss, Peck & Greer LLC. Mr. Schaepe disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.
- (3) Shares held by WPG Enterprise Fund II, LLC
- (4) Shares Held by Weiss, Peck & Greer Venture Associates III, LLC

# EXHIBIT 32

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934  
(Amendment No. \_\_\_\_\_)\*

Terayon Communication Systems, Inc.

-----  
(Name of Issuer)

Common Stock

-----  
(Title of Class of Securities)

880775101

-----  
(CUSIP Number)

July 11, 2001

-----  
(Date of Event Which Requires Filing of This Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

Rule 13d-1(b)

Rule 13d-1(c)

Rule 13d-1(d)

\*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

CUSIP NO. 880775105

13G

-----  
1 NAMES OF REPORTING PERSON

1 I.R.S. IDENTIFICATION NO(S). OF ABOVE PERSON(S) (ENTITIES ONLY)

Dr. Zaki Rakib

-----  
2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP\*2 (a) 2 (b) -----  
3 SEC USE ONLY

3

-----  
4 CITIZENSHIP OR PLACE OF ORGANIZATION

4 United States and Israel

-----  
5 SOLE VOTING POWER

5 3,176,664 (1)

## SHRSHARES

-----  
6 SHARED VOTING POWER

6 240,000 (2)

## BENEFICIALLY OWNED BY

-----  
7 SOLE DISPOSITIVE POWER

7 3,176,664 (1)

## REPORTING PERSON

-----  
8 SHARED DISPOSITIVE POWER

8 240,000 (2)

-----  
9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

9 3,416,664 (1)

-----  
10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES\*

10

-----  
11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

11 5%

-----  
12 TYPE OF REPORTING PERSON\*

12 IN

-----  
(1) Includes 266,664 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 11, 2001.

(2) Includes 240,000 shares held by the Selim Rakib Children's Trust Fund of which Dr. Rakib is a trustee.

## Item 1.

- (a) Name of Issuer: Terayon Communication Systems, Inc.
- (b) Address of Issuer's Principal Executive Offices:  
2952 Bunker Hill Lane  
Santa Clara, CA 95054

## Item 2.

- (a) Name of Person Filing: Dr. Zaki Rakib
- (b) Address of Principal Business Office or, if none, Residence:  
2952 Bunker Hill Lane  
Santa Clara, CA 95054
- (c) Citizenship: United States and Israel
- (d) Title of Class of Securities: Common Stock
- (e) CUSIP Number: 880775101

Item 3. If this statement is filed pursuant to 240.13d-1(b), or 240.13d-2(b) or (c), check whether the person filing is a:

- (a)  Broker or Dealer registered under Section 15 of the Act (15 U.S.C. 78o);
- (b)  Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c);
- (c)  Insurance company as defined in section 3(a)19) of the Act (15 U.S.C. 78c);
- (d)  An investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8);
- (e)  An investment adviser in accordance with (S)240.13d-1(b)(1)(ii)(E);
- (f)  An employee benefit plan or endowment fund in accordance with (S)240.13d-1(b)(1)(ii)(F);
- (g)  A parent holding company or control person in accordance with (S)240.13d-1(b)(ii)(G);
- (h)  A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
- (i)  A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);
- (j)  Group, in accordance with (S)240.13d-1(b)(1)(ii)(J)

## Item 4. Ownership

- (a) Amount Beneficially Owned: 3,416,664 (1)
- (b) Percent of Class: 5%
- (c) Number of shares as to which such person has:
  - (i) Sole power to vote or to direct the vote: 3,176,644 (1)
  - (ii) Shared power to vote or to direct the vote: 240,000 (2)
  - (iii) Sole power to dispose or to direct the disposition of: 3,176,644 (1)
  - (iv) Shared power to dispose or to direct the disposition of: 240,000 (2)

- (1) Includes 266,664 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 11, 2001.
- (2) Includes 240,000 shares held by the Selim Rakib Children's Trust of which Dr. Rakib is a trustee.

## Item 5. Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following .

Item 6. Ownership of More than Five Percent on Behalf of Another Person

Not Applicable.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company

Not Applicable.

Item 8. Identification and Classification of Members of the Group

Not Applicable.

Item 9. Notice of Dissolution of a Group

Not Applicable.

Item 10. Certification

Not Applicable.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

July 24, 2001

-----  
Date

-----  
/s/ Dr. Zaki Rakib

-----  
Signature

Dr. Zaki Rakib/ Chief Executive Officer, Secretary and Director

-----  
Name/Title

# **EXHIBIT 33**

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934  
(Amendment No. \_\_\_\_\_)\*

Terayon Communication Systems, Inc.

-----  
(Name of Issuer)

Common Stock

-----  
(Title of Class of Securities)

880775101

-----  
(CUSIP Number)

July 11, 2001

-----  
(Date of Event Which Requires Filing of This Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

Rule 13d-1(b)  
 Rule 13d-1(c)  
 Rule 13d-1(d)

\*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

CUSIP NO. 880775105

13G

## NAME OF REPORTING PERSON

1 I.R.S. IDENTIFICATION NO(S). OF ABOVE PERSON(S) (ENTITIES ONLY)

Shlomo Rakib

## CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP\*

2

(a)

(b)

## SEC USE ONLY

3

## CITIZENSHIP OR PLACE OF ORGANIZATION

4

Israel

## SOLE VOTING POWER

5

NUMBER OF 3,176,664 (1)

## SHARES

## SHARED VOTING POWER

BENEFICIALLY

6

240,000 (2)

OWNED BY

## EACH

## SOLE DISPOSITIVE POWER

7

REPORTING 3,176,664 (1)

## PERSON

## SHARED DISPOSITIVE POWER

WITH:

8

240,000 (2)

## AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

9

3,416,664(1)

## CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES\*

10

## PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

11

5%

## TYPE OF REPORTING PERSON\*

12

IN

- (1) Includes 266,664 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 11, 2001.
- (2) Includes 240,000 shares held by the Zaki Rakib Children's Trust Fund of which Mr. Rakib is a trustee.

\*SEE INSTRUCTION BEFORE FILLING OUT!

## Item 1.

- (a) Name of Issuer: Terayon Communication Systems, Inc.
- (b) Address of Issuer's Principal Executive Offices:  
2952 Bunker Hill Lane  
Santa Clara, CA 95054

## Item 2.

- (a) Name of Person Filing: Shlomo Rakib
- (b) Address of Principal Business Office or, if none, Residence:  
2952 Bunker Hill Lane  
Santa Clara, CA 95054
- (c) Citizenship: Israel
- (d) Title of Class of Securities: Common Stock
- (e) CUSIP Number: 880775101

Item 3. If this statement is filed pursuant to 240.13d-1(b), or 240.13d-2(b) or (c), check whether the person filing is a:

- (a)  Broker or Dealer registered under Section 15 of the Act (15 U.S.C. 78o);
- (b)  Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c);
- (c)  Insurance company as defined in section 3(a)19 of the Act (15 U.S.C. 78c);
- (d)  An investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8);
- (e)  An investment adviser in accordance with (S)240.13d-1(b)(1)(ii)(E);
- (f)  An employee benefit plan or endowment fund in accordance with (S)240.13d-1(b)(1)(ii)(F);
- (g)  A parent holding company or control person in accordance with (S)240.13d-1(b)(ii)(G);
- (h)  A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
- (i)  A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);
- (j)  Group, in accordance with (S)240.13d-1(b)(1)(ii)(J)

## Item 4. Ownership

- (a) Amount Beneficially Owned: 3,416,664 (1)
- (b) Percent of Class: 5%
- (c) Number of shares as to which such person has:
  - (i) Sole power to vote or to direct the vote: 3,176,644 (1)
  - (ii) Shared power to vote or to direct the vote: 240,000 (2)
  - (iii) Sole power to dispose or to direct the disposition of: 3,176,644 (1)
  - (iv) Shared power to dispose or to direct the disposition of: 240,000 (2)

- (1) Includes 266,664 shares issuable upon the exercise of stock options that are exercisable within 60 days of July 11, 2001.
- (2) Includes 240,000 shares held by the Zaki Rakib Children's Trust of which Mr. Rakib is a trustee.

## Item 5. Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following .

Item 6. Ownership of More than Five Percent on Behalf of Another Person

Not Applicable.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company

Not Applicable.

Item 8. Identification and Classification of Members of the Group

Not Applicable.

Item 9. Notice of Dissolution of a Group

Not Applicable.

Item 10. Certification

Not Applicable.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

July 25, 2001

-----  
Date

-----  
/s/ Shlomo Rakib

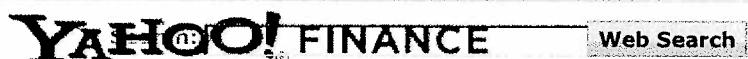
-----  
Signature

Shlomo Rakib/ Chief Technical Officer and Chairman

-----  
Name>Title

# EXHIBIT 34

Yahoo! My Yahoo! Mail More New Make Y! your Home page Help



Web Search

Dow ↑ 0.23% Nasdaq ↓ 0.14%

Wednesday, March 7, 2007, 2:07PM ET - U.S. Markets close in 1 hour

Enter Symbol(s)

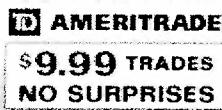
GET QUOTES

Symbol Lookup

Finance Search

## TERAYON COMMUN SYS# (TERN.PK)

At 1:15PM ET: 2.12 ↑



## Historical Prices

Get Historical Prices for:  GO

## SET DATE RANGE

Start Date: Dec 1 2001 Eg. Jan 1, 2003

 Daily Weekly Monthly Dividends Only

End Date: Dec 31 2001

Get Prices

## ADVERTISEMENT

## Trade Smarter

Try our research, sign up for 30 days free.

Fidelity Brokerage Services,  
Member NYSE, SIPC 405668

## PRICES

Date	Open	High	Low	Close	Volume	Adj Close*
31-Dec-01	8.19	8.50	8.06	8.27	1,051,300	8.27
28-Dec-01	8.56	8.87	8.10	8.11	1,956,000	8.11
27-Dec-01	8.05	8.60	8.00	8.49	2,501,400	8.49
26-Dec-01	8.13	8.47	8.00	8.16	2,125,800	8.16
24-Dec-01	8.28	8.28	7.81	8.06	665,500	8.06
21-Dec-01	7.65	8.38	7.54	8.21	6,841,000	8.21
20-Dec-01	10.44	11.63	7.26	7.48	24,716,300	7.48
19-Dec-01	11.40	11.85	10.25	10.34	2,589,900	10.34
18-Dec-01	12.35	12.60	11.83	11.99	1,779,300	11.99
17-Dec-01	10.55	12.02	10.15	12.00	3,273,200	12.00
14-Dec-01	11.62	11.80	10.40	10.77	3,013,900	10.77
13-Dec-01	12.05	12.40	11.53	11.60	1,574,100	11.60
12-Dec-01	12.65	12.89	12.05	12.13	1,181,200	12.13
11-Dec-01	13.15	13.60	12.13	12.41	1,959,700	12.41
10-Dec-01	13.15	13.45	12.28	12.95	1,586,400	12.95
7-Dec-01	14.15	14.15	13.10	13.25	2,279,400	13.25
6-Dec-01	14.48	14.75	14.05	14.15	1,992,500	14.15
5-Dec-01	13.37	14.75	13.27	14.11	4,004,400	14.11

4-Dec-01	11.59	13.10	11.55	13.06	1,852,700	13.06
3-Dec-01	12.05	12.20	11.42	11.52	1,009,600	11.52
30-Nov-01	12.90	13.30	12.01	12.06	1,588,000	12.06

\* Close price adjusted for dividends and splits.

[First](#) | [Prev](#) | [Next](#) | [Last](#)

 [Download To Spreadsheet](#)

[Add to Portfolio](#)  [Set Alert](#)  [Email to a Friend](#)

Get **Historical Prices** for Another Symbol:   [Symbol Lookup](#)

- [Stock Screener](#)
- [Splits](#)
- [Mergers & Acquisitions](#)

Copyright © 2007 Yahoo! Inc. All rights reserved. [Privacy Policy](#) - [Terms of Service](#) - [Copyright/IP Policy](#)

**Quotes delayed**, except where indicated otherwise.

Delay times are 15 mins for NASDAQ, 20 mins for NYSE and Amex. See also delay times for [other exchanges](#).

Historical chart data and daily updates provided by [Commodity Systems, Inc. \(CSI\)](#). International historical chart data and daily updates provided by [Hemscott Americas](#). Fundamental company data provided by [Capital IQ](#). Quotes and other information supplied by independent providers identified on the [Yahoo! Finance partner page](#). Quotes are updated automatically, but will be turned off after 25 minutes of inactivity. Quotes are delayed at least 15 minutes. Real-Time continuous streaming quotes are available through our [premium service](#). You may turn streaming quotes on or off. All information provided "as is" for informational purposes only, not intended for trading purposes or advice. Neither Yahoo! nor any of independent providers is liable for any informational errors, incompleteness, or delays, or for any actions taken in reliance on information contained herein. By accessing the Yahoo! site, you agree not to redistribute the information found therein.

# **EXHIBIT 35**

Yahoo! My Yahoo! Mail More New Make Y! your Home page Help



Web Search

Dow ↓ 0.12% Nasdaq ↓ 0.44%

Wednesday, March 7, 2007, 9:55PM ET - U.S. Markets closed.

Enter Symbol(s)

GET QUOTES

Symbol Lookup

Finance Search

## TERAYON COMMUN SYS# (TERN.PK)

At 3:59PM ET: 2.11 0.00 (0.00%)



## Historical Prices

Get Historical Prices for:  GO

## SET DATE RANGE

Start Date:    Eg. Jan 1, 2003 Daily Weekly Monthly Dividends OnlyEnd Date:   

Get Prices

First | Prev | Next | Last

## PRICES

Date	Open	High	Low	Close	Volume	Adj Close*
31-Mar-06	1.85	1.93	1.80	1.83	660,400	1.83
30-Mar-06	1.89	1.91	1.80	1.86	459,100	1.86
29-Mar-06	1.93	1.95	1.75	1.91	1,146,200	1.91
28-Mar-06	1.94	2.05	1.94	1.96	289,900	1.96
27-Mar-06	2.01	2.02	1.92	1.95	302,300	1.95
24-Mar-06	2.07	2.08	2.00	2.01	576,500	2.01
23-Mar-06	2.05	2.19	2.00	2.05	850,100	2.05
22-Mar-06	1.78	2.01	1.73	1.88	1,407,300	1.88
21-Mar-06	2.20	2.20	1.88	1.89	2,954,900	1.89
20-Mar-06	2.26	2.28	2.10	2.22	862,300	2.22
17-Mar-06	2.31	2.35	2.27	2.29	692,400	2.29
16-Mar-06	2.32	2.32	2.21	2.31	297,700	2.31
15-Mar-06	2.32	2.33	2.24	2.31	231,200	2.31
14-Mar-06	2.28	2.33	2.25	2.30	196,100	2.30
13-Mar-06	2.30	2.34	2.25	2.29	290,900	2.29

ADVERTISEMENT

10-Mar-06	2.25	2.27	2.16	2.26	254,500	2.26
9-Mar-06	2.26	2.35	2.20	2.25	475,000	2.25
8-Mar-06	2.18	2.33	2.18	2.24	459,500	2.24
7-Mar-06	2.23	2.24	2.16	2.18	436,600	2.18
6-Mar-06	2.31	2.33	2.23	2.23	918,500	2.23
3-Mar-06	2.38	2.43	2.26	2.27	1,266,300	2.27
2-Mar-06	2.25	2.61	2.16	2.33	4,873,200	2.33
1-Mar-06	2.66	2.82	2.66	2.70	641,100	2.70
28-Feb-06	2.81	2.84	2.65	2.68	1,043,500	2.68
27-Feb-06	2.55	2.91	2.51	2.83	3,214,800	2.83
24-Feb-06	2.51	2.61	2.44	2.52	263,900	2.52
23-Feb-06	2.47	2.54	2.42	2.50	335,800	2.50
22-Feb-06	2.45	2.48	2.40	2.45	140,700	2.45
21-Feb-06	2.37	2.49	2.35	2.45	358,500	2.45
17-Feb-06	2.42	2.45	2.30	2.38	256,400	2.38
16-Feb-06	2.38	2.45	2.30	2.40	317,700	2.40
15-Feb-06	2.29	2.36	2.22	2.36	330,500	2.36
14-Feb-06	2.22	2.35	2.21	2.29	237,000	2.29
13-Feb-06	2.25	2.26	2.15	2.23	108,900	2.23
10-Feb-06	2.23	2.27	2.17	2.24	238,000	2.24
9-Feb-06	2.19	2.28	2.19	2.25	366,500	2.25
8-Feb-06	2.24	2.32	2.12	2.21	257,900	2.21
7-Feb-06	2.24	2.35	2.16	2.26	213,500	2.26
6-Feb-06	2.17	2.29	2.13	2.26	155,900	2.26
3-Feb-06	2.23	2.29	2.13	2.19	236,800	2.19
2-Feb-06	2.35	2.39	2.25	2.25	230,700	2.25
1-Feb-06	2.37	2.39	2.28	2.36	314,900	2.36

\* Close price adjusted for dividends and splits.

[First](#) | [Prev](#) | [Next](#) | [Last](#)

 [Download To Spreadsheet](#)

 [Add to Portfolio](#)  [Set Alert](#)  [Email to a Friend](#)

Get **Historical Prices** for Another Symbol:   [GO](#) [Symbol Lookup](#)

- [Stock Screener](#)
- [Splits](#)
- [Mergers & Acquisitions](#)

Find out if  
you're as  
smart as you  
think you are.

Back-test your  
trading strategies  
with Wealth-Lab Pro®.



Fidelity Brokerage Services,  
Member NYSE, SIPC 424039

**Quotes delayed**, except where indicated otherwise.

Delay times are 15 mins for NASDAQ, 20 mins for NYSE and Amex. See also delay times for other exchanges.

Historical chart data and daily updates provided by Commodity Systems, Inc. (CSI). International historical chart data and daily updates provided by Hemscott Americas. Fundamental company data provided by Capital IQ. Quotes and other information supplied by independent providers identified on the Yahoo! Finance partner page. Quotes are updated automatically, but will be turned off after 25 minutes of inactivity. Quotes are delayed at least 15 minutes. Real-Time continuous streaming quotes are available through our premium service. You may turn streaming quotes on or off. All information provided "as is" for informational purposes only, not intended for trading purposes or advice. Neither Yahoo! nor any of independent providers is liable for any informational errors, incompleteness, or delays, or for any actions taken in reliance on information contained herein. By accessing the Yahoo! site, you agree not to redistribute the information found therein.

# EXHIBIT 36

**FORM 4**

Check this box if no longer subject to Section 16, Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	3235-0287
OMB Number:	Case 4:00-cv-03936-CW January 31, 2000 0.
Expires:	
Estimated average burden hours per response...	

-03936-CW Document 39-6 Filed 03/09/2007

Page 2 of 3

1. Name and Address of Reporting Person <sup>*</sup> LUSTENADER CAROL W	2. Issuer Name and Ticker or Trading Symbol TERAYON COMMUNICATION SYSTEMS [TERN]	5. Relationship of Reporting Person(s) to Issuer (Check all applicable) <input type="checkbox"/> Director <input type="checkbox"/> Officer (give title below) <input checked="" type="checkbox"/> Former Officer <input type="checkbox"/> Other (specify below)
(Last) ,	3. Date of Earliest Transaction (Month/Day/Year) 2003-05-06	6. Individual or Joint/Group Filing (Check Applicable Line) <input checked="" type="checkbox"/> Form filed by One Reporting Person <input type="checkbox"/> Form filed by More than One Reporting Person
(First)	(Middle)	
(Street)	(City)	
(State)	(Zip)	
4. If Amendment, Date Original Filed (Month/Day/Year)		

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security	2. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code	4. Securities Acquired (A) or Disposed of (D)		5. Amount of Securities Beneficially Owned Following Reported Transaction(s)	6. Ownership Form: Direct (D) or Indirect (I)	7. Nature of Indirect Beneficial Ownership
				Code	V			
Common Stock	2003-05-06		S			7132 (1)	D	\$2.5 0 D

**Table II - Derivative Securities Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**

1. Title of Derivative Security	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code	5. Number of Derivative Securities Acquired (A) or	6. Date Exercisable and Expiration Date	7. Title and Amount of Securities Underlying Derivative Security	8. Price of Derivative Security	9. Number of derivative Securities Beneficially Owned	10. Ownership Form of Derivative Security	11. Nature of Indirect Beneficial Ownership

Case 4.						
	Disposed of (D)	V (A)	(D)	Date Exercisable	Expiration Date	Amount or Number of Shares
						or Indirect (I) (s)

## Reporting Owners

Reporting Owner Name / Address	Relationships		
	Director	10% Owner	Officer
LUSTENADER CAROL W			Former Officer

## Explanation of Possessions:

(1) Shares were acquired under Terayon employees stock purchase plan

SIGNATURES

S/Bachell Halgren for Carol J. Lustenader

卷之三

) If the form is filed by more than one reporting person, see Instruction 5(b)(v).  
(\* ) Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. [100] and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, See Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

# EXHIBIT 37

**FORM 4****UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

Check this box if no longer subject to Section 16, Form 4 or Form 5 obligations may continue. See Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES  
Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB Number: 3235-0287  
Expires: January 31, 2005  
Estimated average burden hours per response... 0.5

1. Name and Address of Reporting Person *	2. Issuer Name and Ticker or Trading Symbol TERAYON COMMUNICATION SYSTEMS [TERN]			5. Relationship of Reporting Person(s) to Issuer (Check all applicable) <input type="checkbox"/> Director <input type="checkbox"/> Officer (give title below) <input type="checkbox"/> Other (specify below) <input type="checkbox"/> 10% Owner <input type="checkbox"/> / Former Officer		
(Last) (First) ,	(Middle)	3. Date of Earliest Transaction (Month/Day/Year)	2003-07-07	6. Individual or Joint/Group Filing (Check Applicable Line) <input checked="" type="checkbox"/> Form filed by One Reporting Person <input type="checkbox"/> Form filed by More than One Reporting Person		
(Street)	4. If Amendment, Date Original Filed (Month/Day/Year)					
(City)	(State)	(Zip)				

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code	4. Securities Acquired (A) or Disposed of (D)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s)	6. Ownership Form: Direct (D) or Indirect (I)	7. Nature of Indirect Beneficial Ownership
Common Stock	2003-07-02		M	50000 A	\$2.12 50000	D	
Common Stock	2003-07-02		S	20000 D	\$2.94 30000	D	
Common Stock	2003-07-03		S	30000 D	\$3.6267 0	D	

Table II - Derivative Securities Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise Price of Derivative	3. Transaction Date (Month/Day/Year)	4. Transaction Date, if any (Month/Day/Year)	5. Number of Derivative Securities Acquired	6. Date Exercisable and Expiration Date	7. Title and Amount of Securities Underlying Derivative Security	8. Price of Derivative Security	9. Number of derivative Securities Beneficially

	Security	(A) or Disposed of (D)				Expiration Date	Title	Amount or Number of Shares	Owned Following Reported Transaction (\$)
		Code	V	(A)	(D)				
	Non-Qualified Stock Option (right to buy)	2.12	2003-07-02	M		2003-02-21(l)	2013-02-21	Common Stock	50000 \$0 0

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
LUSTENADER CAROL W ,				Former Officer

## Explanation of Responses:

(1) 100% of total shares vest on Grant Date.

## Signatures

/s/Edward Lopez for Carol Lustenader

\*\*Signature of Reporting Person

(\*) If the form is filed by more than one reporting person, see Instruction 5(b)(v).

(\*\*) Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, See Instruction 6 for procedure.

Ownership Submission

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

Page 3 of 3

# **EXHIBIT 38**

**FORM 4**

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**  
Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *	2. Issuer Name and Ticker or Trading Symbol TERAYON COMMUNICATION SYSTEMS [TERN]			5. Relationship of Reporting Person(s) to Issuer (Check all applicable)		
(Last) 4988 GREAT AMERICA PARKWAY	(First) (Middle)	3. Date of Earliest Transaction (Month/Day/Year) 08/20/2003			<input type="checkbox"/> Director	<input type="checkbox"/> 10% Owner
(Street) SANTA CLARA, CA 95054	(City)	4. If Amendment, Date Original Filed (Month/Day/Year)			<input type="checkbox"/> Officer (give title below)	<input checked="" type="checkbox"/> Other (specify below) Former Officer
(State) (Zip)						

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	3. Deemed Execution Date, if any (Month/Day/Year)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transactions (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
Common Stock	08/20/2003		M	8,750	A	\$5,5313 0	D
Common Stock	08/20/2003		S	8,750	D	\$6,9746 0	D
Common Stock	08/20/2003		M	8,000	A	\$5,5313 0	D
Common Stock	08/20/2003		S	8,000	D	\$6,9746 0	D
Common Stock	08/20/2003		M	26,600	A	\$6,8125 0	D
Common Stock	08/20/2003		S	26,600	D	\$6,9746 0	D
Common Stock	08/20/2003		M	9,667	A	\$6,8125 0	D

Case 4:06-cv-05936-CW Document 39-8 Filed 03/09/07

Page 2 of 5

Common Stock	08/20/2003		S	9,667	D	\$6.9746	0
Common Stock	08/20/2003		M	11,810	A	\$6.8125	0
Common Stock	08/20/2003		S	11,810	D	\$6.9746	0
Common Stock	08/20/2003		M	7,523	A	\$6.8125	0
Common Stock	08/20/2003		S	7,523	D	\$6.9746	0
Common Stock	08/20/2003		M	3,600	A	\$5.1875	0
Common Stock	08/20/2003		S	3,600	D	\$6.9746	0

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned  
(e.g., puts, calls, warrants, options, convertible securities)**

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficially Owned Following Reported Transaction(s) (Instr. 4)	10. Ownership Form of Derivative Security: Direct (D) or Indirect (I) (Instr. 4)	11. Nature of Indirect Beneficial Ownership (Instr. 4)
				Code	V (A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Non-Qualified Stock Option (right to buy)	\$5.1875	08/20/2003		M	3,600	08/20/2003	02/12/2011	Common Stock	3,600	\$6.9746	5,400
Non-Qualified Stock Option (right to buy)	\$5.5313	08/20/2003		M	8,750	08/20/2003	02/05/2011	Common Stock	8,750	\$6.9746	0
Non-Qualified Stock Option (right to buy)	\$5.5313	08/20/2003		M	8,000	08/20/2003	02/05/2011	Common Stock	8,000	\$6.9746	18,250
Non-Qualified Stock Option (right to buy)	\$6.8125	08/20/2003		M	26,600	08/20/2003	02/14/2011	Common Stock	26,600	\$6.9746	0

(right to buy)														
Non-Qualified Stock Option (right to buy)	\$6.8125	08/20/2003	M	9,667	08/20/2003	02/14/2011	Common Stock	9,667	\$6.9746	0	D			
Non-Qualified Stock Option (right to buy)	\$6.8125	08/20/2003	M	11,810	08/20/2003	02/14/2011	Common Stock	11,810	\$6.9746	0	D			
Non-Qualified Stock Option (right to buy)	\$6.8125	08/20/2003	M	7,523	08/20/2003	02/14/2011	Common Stock	7,523	\$6.9746	27,402	D			

**Reporting Owners**

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
LUSTENADER CAROL W 4988 GREAT AMERICA PARKWAY SANTA CLARA, CA 95054				Former Officer

**Explanation of Responses:****Signatures**/s/ Carol W Lustenader

\*\*Signature of Reporting Person

Date

08/22/2003

\* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

# EXHIBIT 39

**Terayon Announces Preliminary Results for Second Quarter 2001**

Santa Clara, California - June 28 2001

Terayon Communication Systems, Inc. (Nasdaq: TERN), a leading supplier of broadband networking systems, today announced preliminary financial results for the second quarter 2001.

Terayon expects to report total revenues in the range of \$62 to \$65 million.

Excluding a \$30 to \$40 million charge, the company expects a preliminary pro forma loss for the second quarter of 2001 in the range of \$0.38 to \$0.40 per share.

The above charge relates primarily to increased inventory reserves, vendor cancellation charges, and equipment write-offs. Including the charge, pro forma loss for the second quarter of 2001 is expected to be in the range of \$0.82 to \$1.00 per share.

Terayon will announce its quarterly results for the second quarter, 2001, on July 24, 2001.

**About Terayon**

Terayon Communication Systems provides innovative broadband systems and solutions for the delivery of advanced, carrier-class voice, data and video services, which are deployed by the world's leading cable television and telecommunications carriers. Terayon, headquartered in Santa Clara, California, has sales and support offices worldwide, and is traded on the Nasdaq under the symbol TERN. Terayon can be found on the web at [www.terayon.com](http://www.terayon.com).

###

**"Safe Harbor" Statements under the Private Securities Litigation Reform Act of 1995:**

Except for the historical information contained herein, this news release contains forward-looking statements, estimates, and assumptions by the Company and other parties that involve risks and uncertainties, including the Company's ability to reorganize successfully and better address customer needs, the Company's ability to reduce its operating costs, the Company's ability to improve its operating results, the Company's ability to gain new business and offer new products, the expansion of operations by the Company's customers and the deployment of the Company's products in specific markets, as well as the other risks detailed from time to time in the Company's filings with the SEC.

# EXHIBIT 40

**Terayon Reports Second Quarter 2002 Financial Results**

Santa Clara, California - July 29 2002

Terayon Communication Systems, Inc. (Nasdaq: TERN), a leading supplier of broadband solutions, today reported revenues of \$22.4 million for the second quarter 2002, a decrease of 66% from \$65.7 million for the second quarter 2001. For the six months ended June 30, 2002, revenues were \$79.6 million, a decrease of 33% from \$119.7 million for the same period 2001. The pro forma net loss for the second quarter 2002 was \$28.3 million or \$0.39 per share, compared to a pro forma net loss of \$54.5 million or \$0.81 per share for the same period 2001. The pro forma net loss for the six months ended June 30, 2002 was \$32.2 million or \$0.44 per share, compared to a pro forma net loss of \$83.8 million or \$1.24 for the same period 2001.

The pro forma results exclude: (1) non-cash charges related to stock compensation and the impairment of goodwill and other assets in 2002 and 2001; (2) non-cash charges resulting from the amortization of intangible assets related to acquisitions in 2001; (3) restructuring charges in 2001; (4) gains resulting from the retirement of debt in 2002 and 2001; and (5) a write down of investments in 2002.

In the second quarter, the gain resulting from the retirement of debt was \$33.3 million, and the write down of investments totaled \$4.5 million. In addition, in the second quarter 2002, Terayon recorded a \$4.0 million charge related to the impairment of goodwill and other intangible assets. The GAAP net loss for the second quarter 2002 was \$3.7 million or \$0.05 per share, compared to \$62.5 million or \$0.93 per share for the same period 2001.

The GAAP net loss for the six months ended June 30, 2002 was \$7.8 million or \$0.11 per share, compared to \$570.7 million or \$8.45 per share for the same period 2001.

For the second quarter 2002, cable business revenues were \$19.2 million or 86% of total revenues, down 67% from \$57.9 million in the same period 2001. For the telecom business, revenues were \$3.2 million or 14% of total revenues, down 59% from \$7.8 million in the second quarter 2001.

Terayon's CEO Zaki Rakib said, "Our revenues reflect the challenge of transitioning from proprietary to standards-based products during a period of difficult market conditions. While disappointed by the short-term outlook, we are encouraged by the growing demand for DOCSIS 2.0-based products. In the previous quarter and during this quarter we have and will be fulfilling orders for our DOCSIS 2.0-based modems from three of the top four U.S. MSOs. The early adoption of DOCSIS 2.0 benefits Terayon given our leadership in its implementation."

Terayon expects revenues in the third quarter to be in the range of \$15 to \$25 million and the pro forma net loss to be in the range of \$0.35 to \$0.39 per share. For the full year, Terayon expects revenues, excluding Imedia Semiconductor, to be in the range of \$110 to \$130 million, and the pro forma per share loss to be in the range of \$1.15 to \$1.41 per share. Terayon plans to fund Imedia at a cost of approximately \$5 to \$6 million per quarter.

Through aligning company resources to its strategic areas and to market conditions, Terayon will be able to achieve a reduction in its operating expenses in the near term. With the exclusion of Imedia Semiconductor, Terayon expects operating expenses to be below \$20 million in the first quarter, 2003.

**Webcast of Earnings Call**

Terayon will conduct [a conference call](#) today concerning this announcement at 2 p.m. Pacific Time (5 p.m. Eastern Time). US residents who wish to listen to the call should dial (888) 428-4479 at least 10 minutes prior to the start time. International callers should dial (612) 288-0329. A replay of the call will be available for 20 days at the Terayon website or by calling (800) 475-6701 in the US or (320) 365-3844 outside the US. The access code for the replay is 645288.

**About Terayon**

Terayon Communication Systems provides innovative broadband systems and solutions for the delivery of advanced, carrier-class voice, data and video services that are deployed by the world's leading cable television operators and telecommunication carriers. Terayon, headquartered in Santa Clara, California, has sales and support offices worldwide, and is traded on the NASDAQ under the symbol TERN. Terayon can be found on the web at [www.terayon.com](http://www.terayon.com).

# # #

"Safe Harbor" Statements under the Private Securities Litigation Reform Act of 1995: Except for the historical information contained herein, this news release contains forward-looking statements, estimates, and assumptions by Terayon and other parties that involve risks and uncertainties, including Terayon's ability to develop and bring to market new

products, the acceptance of Terayon's new products in the market, Terayon's ability to gain new business, the expansion of operations by Terayon's customers, the deployment of Terayon's products in specific markets and Terayon's ability to lower and align its operating expenses with market conditions, as well as the other risks detailed from time to time in Terayon's filings with the Securities and Exchange Commission. Note: Terayon, the Terayon logo, TeraPro, TeraLink, and TeraComm are registered trademarks of Terayon Communication Systems, Inc. TeraView and CherryPicker are trademarks of Terayon Communication Systems, Inc. All other trademarks are property of their respective owners.

**Terayon Communication Systems, Inc.**  
**Unaudited Pro Forma Condensed Consolidated Statements of Operations**  
(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	\$22,407	\$65,733	\$79,625	\$119,717
Revenues				
Cost of goods sold	22,434	52,031	65,604	95,122
Cost of goods sold/special charges	-	28,704	(11,443)	28,704
Gross profit (loss)	<u>(27)</u>	<u>(15,002)</u>	<u>25,464</u>	<u>(4,109)</u>
Operating expenses:				
Research and development	14,673	18,015	31,569	38,452
Sales and marketing	10,121	15,785	18,945	29,954
General and administrative	3,432	6,414	6,940	12,578
Total operating expenses	<u>28,226</u>	<u>40,214</u>	<u>57,454</u>	<u>80,984</u>
Pro forma loss from operations	<u>(28,253)</u>	<u>(55,216)</u>	<u>(31,990)</u>	<u>(85,093)</u>
Interest income	2,013	4,566	4,110	11,299
Interest expense	(2,177)	(3,866)	(4,357)	(9,102)
Other income (expense)	100	317	35	(121)
Pro forma loss before tax	<u>(28,317)</u>	<u>(54,199)</u>	<u>(32,202)</u>	<u>(83,017)</u>
Income tax provision	1	277	7	762
Pro forma net loss	<u>(\$28,318)</u>	<u>(\$54,476)</u>	<u>(\$32,209)</u>	<u>(\$83,779)</u>
Pro forma loss per share, basic and diluted	<u>(\$0.39)</u>	<u>(\$0.81)</u>	<u>(\$0.44)</u>	<u>(\$1.24)</u>

# **EXHIBIT 41**

Terayon Communication Systems Form 8-K

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

-----  
FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: March 12, 2003  
(Date of earliest event reported)

TERAYON COMMUNICATION SYSTEMS, INC.  
(Exact name of Registrant as specified in its charter)

-----  
Delaware 000-24647 77-0328533

-----  
(State or other jurisdiction(Commission (I.R.S. employer  
of incorporation) file number)identification no.)

4988 Great America Parkway, Santa Clara, CA 95054  
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (408) 235-5500

-----  
TABLE OF CONTENTS

Item 9. Regulation FD Disclosure.

Item 7. Exhibits.

SIGNATURES

INDEX OF EXHIBITS

EXHIBIT 99.1

-----  
Table of Contents

Item 9. Regulation FD Disclosure.

On March 12, 2003, Terayon Communication Systems, Inc. (Company) initiated a reduction in force in order to decrease operating expenses. The Company publicly announced this reduction in force in a press release on March 14, 2003.

Item 7. Exhibits.

99.1 Press Release, dated as of March 14, 2003, entitled Terayon Announces Restructuring.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Terayon Communication Systems, Inc.

By: /s/ Arthur T. Taylor

-----  
Arthur T. Taylor  
Chief Financial Officer

Date: March 14, 2003

-----

Table of Contents

INDEX OF EXHIBITS

99.1 Press Release, dated as of March 14, 2003, entitled Terayon Announces Restructuring.

Exhibit 99.1

## TERAYON ANNOUNCES RESTRUCTURING

Santa Clara, California - March 14, 2003 - Terayon Communication Systems, Inc. (Nasdaq: TERN), a leading supplier of broadband solutions, today announced a worldwide restructuring designed to reduce its operating costs, improve efficiencies and re-align resources to focus on its core product offerings for the world's leading cable operators. Measures implemented include a reduction in force of approximately 100 employees, or 20 percent of the workforce, and the closure of certain remote facilities. Terayon anticipates realizing approximately \$12 million to \$15 million in annualized savings from these actions, combined with related operational savings including curtailment of certain program and discretionary expenses. The company expects to record total charges in the range of approximately \$4 million to \$5 million associated with the realignment and the writedown of certain related assets in the quarter ending March 31, 2003.

"We are committed to achieving profitability and are taking the necessary steps to facilitate reaching this key milestone," said Zaki Rakib, Terayon's CEO. "We have identified areas of our operations to streamline and consolidate, while retaining the key resources to deliver upon the commitments we have made to our customers and to continue investing strategically for the future. We are encouraged by the strong interest customers are showing in Terayon's data, video and voice product lines and are looking to generate positive momentum in the coming quarters."

## ABOUT TERAYON

Terayon Communication Systems, Inc. provides innovative broadband systems and solutions for the delivery of advanced voice, data and video services that are deployed by the world's leading cable television operators. Terayon, headquartered in Santa Clara, California, has sales and support offices worldwide, and is traded on the Nasdaq under the symbol TERN. Terayon can be found on the web at [www.terayon.com](http://www.terayon.com).

# # #

"Safe Harbor" Statements under the Private Securities Litigation Reform Act of 1995: Except for the historical information contained herein, this news release contains forward-

looking statements, estimates, and assumptions by Terayon and other parties that involve risks and uncertainties, including Terayon's ability to reduce its operating expenses; Terayon's ability to improve its efficiencies; Terayon's ability to re-align its resources; Terayon's ability to recognize annualized savings from its restructuring activities; Terayon's ability to develop and bring to market new products; the acceptance of Terayon's new products in the market; Terayon's ability to gain new business; the expansion of operations by Terayon's customers; the deployment of Terayon's products in specific markets and Terayon's ability to lower and align its operating expenses with market conditions, as well as the other risks detailed from time to time in Terayon's filings with the Securities and Exchange Commission.

Note: Terayon, the Terayon logo, TeraPro, TeraLink, and TeraComm are registered trademarks of Terayon Communication Systems, Inc. TeraView and CherryPicker are trademarks of Terayon Communication Systems, Inc. All other trademarks are property of their respective owners.

# EXHIBIT 42

Terayon Communications Systems, Inc.

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

-----  
FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: July 30, 2003

(Date of earliest event reported)

TERAYON COMMUNICATION SYSTEMS, INC.

(Exact name of Registrant as specified in its charter)

-----  
Delaware 000-24647 77-0328533

(State or other jurisdiction (Commission (I.R.S. employer  
of incorporation) file number) identification no.)

4988 Great America Parkway, Santa Clara, CA 95054

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (408) 235-5500

-----  
TABLE OF CONTENTS

Item 12. Results of Operations and Financial Condition.

Item 7. Exhibits.

SIGNATURES

INDEX OF EXHIBITS

EXHIBIT 99.1

-----  
Table of Contents

Item 12. Results of Operations and Financial Condition.

On July 30, 2003, Terayon Communication Systems, Inc. (Company) announced via press release the Company's preliminary results for the second quarter ended June 30, 2003. A copy of the Company's press release is attached hereto as

Exhibit 99.1. This Form 8-K and the attached exhibit are furnished to, but not filed with, the Securities and Exchange Commission.

Item 7. Exhibits.

99.1Press Release, dated as of July 30, 2003, entitled Terayon Reports Second Quarter 2003 Financial Results.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Terayon Communication Systems, Inc.

By: /s/ Zaki Rakib

-----

Zaki Rakib  
Chief Executive Officer

Date: July 31, 2003

-----

Table of Contents

INDEX OF EXHIBITS

99.1Press Release, dated as of July 30, 2003, entitled Terayon Reports Second Quarter 2003 Financial Results.

## EXHIBIT 99.1

Exhibit 99.1

## Terayon Reports Second Quarter 2003 Financial Results

Santa Clara, California - July 30, 2003 - Terayon Communication Systems, Inc. (Nasdaq: TERN), a leading provider of broadband solutions, today announced financial results in line with its previously-raised guidance for the second quarter ended June 30, 2003.

Revenues for the second quarter of 2003 were \$30.6 million, an increase of 37% compared to \$22.4 million for the second quarter of 2002, and an increase of 37% from \$22.3 million for the first quarter of 2003. Net loss for the second quarter of 2003 was \$13.1 million, or \$0.18 per share, compared to a net loss of \$3.7 million, or \$0.05 per share, for the second quarter of 2002, and a net loss of \$24.0 million, or \$0.33 per share, for the first quarter of 2003.

"We are pleased with our progress this quarter and the continued positive momentum we are seeing with cable operator interest in our DOCSIS 2.0 solutions," said Zaki Rakib, Terayon's Chief Executive Officer. "In addition, we believe we are well positioned to capitalize on our DOCSIS 2.0 and digital video leadership positions as the cable industry works to meet the bandwidth management challenges presented by the expected growth of High Definition TV (HDTV), Video on Demand, and new IP based services required to compete against telecom and satellite offerings. Going into the second half of 2003, we remain focused on achieving sustainable profitability through growing revenues, improving margins via product cost reductions, and prudent operating expense management."

Terayon ended the second quarter with \$161.9 million in cash and short-term investments, and \$65.1 million in convertible debt. Accounts receivable days sales outstanding (DSO) for the second quarter of 2003 was 70 days, compared with 71 days reported for the quarter ended March 31, 2003.

For the third quarter of 2003, Terayon expects to report revenue in the range of \$33 million to \$36 million and anticipates a net loss in the range of \$0.14 to \$0.16 per share.

Terayon will host a conference call today at 2 p.m. Pacific Time to further discuss its second quarter 2003 financial performance. Participants interested in listening to the call live should dial 866-406-3488 (U.S.) or 630-691-2772 (international). A live audio webcast of the call will also be available to the public from Terayon's website at [www.terayon.com](http://www.terayon.com). In addition, a replay of the conference call will be available via telephone from Wednesday July 30 at approximately 4 p.m. Pacific Time through the close of business on September 1, 2003. Participants can access the replay by calling 877-213-9653 (U.S.) or 630-652-3041 (international). The access code for the replay is 7472602.

## About Terayon

Terayon Communication Systems, Inc. provides innovative broadband systems and solutions for the delivery of advanced voice, data and video services that are deployed by the world's leading cable television operators. Terayon, headquartered in Santa Clara, California,

---

has sales and support offices worldwide, and is traded on the Nasdaq under the symbol TERN. Terayon is on the web at [www.terayon.com](http://www.terayon.com).

# # #

"Safe Harbor" Statements under the Private Securities Litigation Reform Act of 1995:

Except for the historical information contained herein, this news release contains forward-looking statements, estimates and assumptions by Terayon that involve risk and uncertainties, including the preliminary guidance on third quarter 2003 revenues and net loss per share. These forward-looking statements are based on current expectations and Terayon assumes no obligation to update this information. In addition, the events described in these forward-looking statements may not actually arise. Terayon's actual results could differ materially from those described in this press release, including Terayon's ability to gain new business; Terayon's ability to develop and bring to market new, technologically advanced products; the acceptance of Terayon's new products in the market; the expansion of operations by Terayon's customers; the deployment of Terayon's products in specific markets; and Terayon's ability to lower and align its operating expenses with market conditions, as well as the other risks detailed from time to time in Terayon's filings with the Securities and Exchange Commission.

Note: Terayon and the Terayon logo are registered trademarks of Terayon Communication Systems, Inc. All other trademarks are property of their respective owners.

---

Terayon Communication Systems, Inc.  
Unaudited Condensed Consolidated Statements of Operations  
(In thousands, except per share amounts)

	Three Months Ended		
	June 30, 2003	March 31, 2003	June 30, 2002
Revenues	\$ 30,599	\$ 22,268	\$ 22,407
Cost of goods sold	23,736	19,593	22,434
Gross profit (loss)	6,863	2,675	(27)
Operating expenses:			
Research and development	10,432	13,002	14,704
Sales and marketing	6,560	6,729	10,141
General and administrative	3,000	3,727	3,552
Restructuring costs (reversal) and asset write-offs	(115)	3,162	3,972
Total operating expense	19,877	26,620	32,369
Loss from operations	(13,014)	(23,945)	(32,396)
Interest income	909	902	2,013
Interest expense	(814)	(837)	(2,177)
Other expense	(160)	(40)	(4,400)
Gain on early retirement of debt	--	--	33,276
Loss before income tax expense	(13,079)	(23,920)	(3,684)
Income tax expense	(60)	(69)	(1)

---

Net loss	\$ (13,139)	\$ (23,989)	\$ (3,685)
Net loss per share, basic and diluted	\$ (0.18)	\$ (0.33)	\$ (0.05)
Shares used in per share calculation, basic and diluted	73,721	73,710	72,761

-----

Terayon Communication Systems, Inc.  
Unaudited Condensed Consolidated Statements of Operations  
(In thousands, except per share amounts)

	Six Months Ended June 30,	
	2003	2002
Revenues	\$ 52,867	\$ 79,625
Cost of goods sold	43,328	54,161
Gross profit	9,539	25,464
Operating expenses:		
Research and development	23,434	31,644
Sales and marketing	13,290	18,994
General and administrative	6,728	7,186
Restructuring costs and asset write-offs	3,046	3,972
Total operating expense	46,498	61,796
Loss from operations	(36,959)	(36,332)
Interest income	1,811	4,110
Interest expense	(1,651)	(4,357)
Other expense	(200)	(4,465)
Gain on early retirement of debt	--	33,276
Loss before income tax expense	(36,999)	(7,768)
Income tax expense	(129)	(7)
Net loss	\$(37,128)	\$(7,775)
Net loss per share, basic and diluted	\$ (0.50)	\$ (0.11)
Shares used in per share calculation, basic and diluted	73,715	72,682

-----

Terayon Communication Systems, Inc.  
Unaudited Condensed Consolidated Balance Sheets  
(In thousands)

ASSETS

Current assets:

June 30, December 31,  
2003 2002

Cash and cash equivalents	\$ 68,466	\$ 117,079
Short-term investments	93,440	89,424
Accounts receivable, net	23,764	17,197
Other receivables, net	2,270	2,597
Inventories, net	7,328	8,257
Prepaid expenses and other	4,531	8,263
-----	-----	-----
Total current assets	199,799	242,817
-----	-----	-----
Property and equipment, net	13,621	17,906
Intangibles and other assets, net	12,474	14,987
-----	-----	-----
Total assets	\$225,894	\$ 275,710
-----	-----	-----
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 19,833	\$ 23,920
Accrued payroll and other liabilities	36,325	46,068
-----	-----	-----
Total current liabilities	56,158	69,988
-----	-----	-----
Non-current liabilities	68,959	68,580
Stockholders' equity	100,777	137,142
-----	-----	-----
Total liabilities and stockholders' equity	\$225,894	\$ 275,710
-----	-----	-----

# **EXHIBIT 43**

**Q2 2003 Terayon Communication Systems Earnings Conference Call - Final**

6,403 words  
30 July 2003  
FD (FAIR DISCLOSURE) WIRE  
English  
(c) Copyright 2003 CCBN and FDCH e-Media.

OPERATOR: Good afternoon ladies and gentlemen, and welcome to the **Terayon**'s Second Quarter 2003 Earnings Conference Call. At this time all participants are in a listen only mode. Later we will conduct a question and answer session. I would now like to turn the call over to Mr. Arthur Taylor, Chief Financial Officer. Mr. Taylor, you may begin sir.

ARTHUR TAYLOR, CFO, **TERAYON** COMMUNICATION SYSTEMS: Thank you Monica. Good afternoon, welcome to the **Terayon** Communication Systems conference call for the second quarter ended June 30th, 2003. I am Mark Taylor, Chief Financial Officer. With me is Zaki Rakib, Chief Executive Officer, and Douglas Sabella, our Chief Operating Officer, who joined us earlier this month. Following our standard format, Zaki will make comments on the overall state of our business, and I will follow with the financial highlights for the quarter. Then we will open the teleconference for questions.

Before we begin, I would like to remind our listeners that statements made during our discussion here today, regarding future performance reflect our perspective as of today. All statements we make, other than statements as historical fact, are forward-looking. These include without limitations, statements regarding our future financial performance. We wish to caution you that such statements are projections, and that actual results may differ materially from these projections, because our operations involve a number of variables, uncertainties and risks, including **Terayon**'s ability to grow revenues, better address customer needs, reduce its product and operating cost, gain new business and developed and offer new products. Additional risks facing **Terayon**, are detailed in our filings with the SEC, including the most recently filed, Form 10-Q. We assume no obligation to update the forward-looking information provided here toady. With that, I will turn the call over to Zaki.

ZAKI RAKIB, CEO, **TERAYON** COMMUNICATIONS SYSTEMS: Thanks Art. As you may have noted from our press release this afternoon, our revenues and loss per share for Q2, we're in line with the ranges we pre-announced on July third, and were better than the guidance we provided on our last earnings call. We are pleased with our progress in the second quarter, and believe we are generating increased momentum going into the second half of this year. One of the key Factors contributing to our stronger than anticipated performance in Q2, was the greater than expected demand for our DOCSIS 2.0 CMTSs, especially in Asia and in the United States. We're clearly seeing evidence of increased cable operator interest in DOCSIS 2.0 solutions, due to the compelling advantages of improved network performance and robotics, more option capacity, more efficient use of the available network bandwidth. Such attributes further contribute to the reduction of OpEx and CapEx associated with high-speed data deployment. More operators are realizing that, by purchasing DOCSIS 2.0 systems, as opposed to previous DOCSIS generations, they are protecting their investments and future proof. Not only would they be backward compatible with existing, (inaudible) DOCSIS generations, they would be purchasing a platform for which they can launch a whole host of new IP based services to their customers. For example, Adelphia Communications, the nation's fifth largest cable operator, is currently using our DOCSIS 2.0 CMTSs, and cable modems, to deliver its powering modem service in a portion of its Los Angeles area cable systems that passes more than 250,000 ohms. This fully operational deployment began in June after a comprehensive trial verified the performance and reliability benefits of DOCSIS 2.0.

In addition, our BlueWave 3500 DOCSIS 2.0 CMTS, which remains the only CMTS in the industry to be DOCSIS 2.0 qualified and packet cable 1.0 qualified, is also undergoing extensive lab testing by three of the top five US cable operators. The value of DOCSIS 2.0 is also being realized internationally with Asia being a particularly active region of business for us in Q2. Currently several Japanese cable operators are deploying or conducting trials of our BlueWave DOCSIS 2.0 solution. Our 2.0 products are also being tested and deployed in other parts of Asia, including Hong Kong, Korea and China.

We saw double-digit growth in our TeraJet DOCSIS 2.0 cable note of shipments, with approximately 282,000 units sold in the quarter, which is up 24% from Q1. The Q2 industry numbers are not out yet, but we believe that this performance has again allowed us to gain market share. More than 900,000 of our DOCSIS 2.0 modems have been shipped to cable operators worldwide, as of the end of the second quarter, which gives us a substantial and growing install base worldwide.

We are pleased that all five of the top US MSOs have now selected our TeraJet DOCSIS 2.0 modems. We see this, as another proof point that cable operators are seeing value in DOCSIS 2.0. From an industry and market perspective, recent developments have encouraged us that we are well positioned with both our

DOCSIS 2.0 and video product offers.

First, we believe certain cable operators financial prospects appear to have stabilized and in some cases improved over the last quarter or two. The restructurings and plant upgrades appear to be nearly complete, and an increasing number of conversations we've had with US cable operators over the last quarter, have been on the growth strategies and tactics which includes, new IT services that can be deployed through DOCSIS 2.0.

Second, many cable operators are experiencing increased competition from the satellite providers, which is causing them to think and act more aggressively in responding to these threats. In particular, the cable operators see the growing interest in high definition T.V. and video on demand as key battlegrounds that they must win. Both of these applications are intensive users of bandwidth, which we believe could be more optimally managed through both our DOCSIS 2.0 solution and our additional video add-ins which include our CherryPicker product line.

Third, the recent heightened competition to the cable operators from the Telcos to capture high speed data market share, is prompting the operators to respond aggressively in kind. For example, several Japanese cable operator customers are delivering or planning to deliver services using DOCSIS 2.0 in order to compete with the Telcos offering DSL connections with 20mb per second or higher performance. In the United States, we're seeing cable operators formulating action plans to combat the low priced DSL offerings, in order to protect their very fast growing and very profitable high speed data franchises.

Given the operators continued focus on managing CapEx closely, and the desire to future prove the networks to support both new service offerings and the growth in bandwidth consumption, as high speed data penetration continues to grow, we believe our DOCSIS 2.0 CMTS and modems provide the key answers they're looking for.

To summarize, we see a number of favorable market and industry dynamics and we believe we're well positioned to capitalize upon them with both our DOCSIS 2.0 and additional video leadership position. So looking to the second half of this year we're focused on execution and making substantial progress, towards achieving cash flow breakeven performance.

We have three key goals for the next two quarters. The first is to grow CMTS revenues through winning extended deployments from existing 2.0 customers and securing new customer wins. The second is to improve product costs through lower cost designs and scaling our operational execution capability. And our third goal is to continue the aggressive CMTS product development efforts, we have established for ourselves to extend our DOCSIS leadership.

As we announced earlier this month, we hired Doug Sabella as our new Chief Operating Officer. Doug has held a variety of senior management positions with Lucent, AT&T and most recently Tumbleweed Communications. At **Terayon** Doug will help lead and coordinate the resources across the company in executing our plan to become the leading provider of CMTS subscriber and video products and services to the cable industry. We are very happy to have him on board and look forward to the many contributions he will make, now I would like to turn the call over to Art, who would review the financial results in detail.

**ARTHUR TAYLOR:** Thank you Zaki. I would like to present the financial highlights for the second quarter and outline our revenue and loss per share expectations in the third quarter. Looking at the second quarter P&L we reported \$30.6m in net revenues, which was within the range we provided in our press release of July 3rd. As we noted in our press release, revenues came in higher than the anticipated range of \$24m-\$28m we provided in our last earnings call due primarily to the following three reasons.

First our DOCSIS CMTS business was stronger than expected due to increased demand in Japan, North America and Korea as Zaki just said.

Second our Legacy S-CDMA product lines also did better than what we've anticipated coming in with a total of \$2.4m which is about \$1m higher than what we've expected. The increased demand was primarily from overseas customers to fulfill immediate demand from end user customers. Our proprietary S-CDMA product lines declined from a total of 29% of revenues in Q1 to approximately 8% of total revenues in Q2. As we have aligned the company's focus and resources behind extending our DOCSIS 2.0 leadership position we expect further decline in proprietary product sales in the quarters ahead.

The third reason for our greater than anticipated revenue in Q2, was a larger than expected order from a European customer for our Legacy Multi-Gate Circuit Switch voice product, this quarter was about \$1.3m higher than we expected, going forward we do not anticipate receiving other upside surprises with this product line as our investment and resource efforts are primarily directed at DOCSIS 2.0 based products and our digital video business.

Turning to revenue specifics for the quarter our CMTS business posted a total of \$8.6m in revenues for the

second quarter, up from \$4.6m in Q1 driven by the aforementioned increase in demand from Asia and in North America. Our subscriber business had revenues of \$17m for the quarter as compared to \$13.7m in Q1. These amounts include DOCSIS 2.0 modems S-CDMA modems and the Multi-Gate product line. Our digital video revenues rebounded in Q2 with revenues of \$3.7m in Q2 compared to the Q1 performance of \$2.8m.

Q2 results were about 10% below our expectations for the quarter but we believe that customer acceptance is our new DM 6400 platform and the increased focus in resources we have devoted in this business will yield improved results going forward. Sales of Telco related products, which were largely from the Miniplex product line contributed \$1.1m in revenues in Q2, which was flat when compared to Q1. On July 21, we completed the sale of our Miniplex product line in a transaction valued of approximately \$1m plus the value of the inventory.

On a geographic basis 57% of our total revenues for the quarter were derived from North America with 25% coming from AMIA (ph) and 18% occurring in Asia. Those compares to 66% of Q1 revenues coming from North America 17% from AMIA and 17% from Asia.

Turning now to the gross profit line, we reported a gross margin of 22% for the second quarter, which was up from the 12% gross margin we posted in Q1. In both Q1 and Q2 we had the benefit of reversals of vendor cancellation charges due to favorable settlements or being able to utilize a previously reserved inventory in products sold.

In Q1 the benefit to cost of goods sold for the Telnet for development was \$2.1m and in Q2 it was \$2.0m. At this time we do not foresee any further significant impacts from previously reserved vendor cancellation charges. The improvement in gross margin versus Q1 stemmed from both an improved sales mix with higher margin CMTS and video products constituting a higher proportion of total sales and improved product cost. Reducing product manufacturing cost across our portfolio is a key area focus for us in 2003, partially offsetting the gains from the improved sales mix and product cost, was a 10% decline in the average unit selling price for our DOCSIS 2.0 Modems versus Q1 '03.

Turning now to operating expenses, we reported total operating expenses for Q2 at \$19.9m which was the mid point of our guidance last quarter and down \$3.6m when compared to Q1 '03 excluding the restructuring charge we booked then. The decline was mostly attributable to lower R&D and G&A expenses, stemming primarily from the reduction force we announced in March combined with lower outside costs. We expect this total level of operating expense spend to remain flat in Q3 as we continue work on certain new product development initiatives and re-allocate resources to bolster our sales service and support coverage for both existing customers and potential new ones.

Moving on to the new loss line we reported an 18 cent net loss per share on 73.7m average shares outstanding. This loss per share is at the better end of the guidance range we provided on our July 3rd pre announcement press release and compares favorably to a 33 cent loss per share recorded in Q1.

Turing now to the balance sheet, cash and short-term investments declined \$17.5m from the first quarter to a total of \$161.9m. This cash burn compares to the anticipated range of \$20 - \$24m provided in our last earnings call. Subtracting the face value of the convertible debt amount of \$65.1m our cash position net of debt was \$96.8m at the end of the second quarter compared to \$114.3m at the end of Q1.

Accounts Receivable increased to \$23.8m versus \$17.7m as at March 31st while days sales outstanding improved by one day to 70 days. We believe the quality of our receivables continue to be good. Going forward, we are targeting 70 to 75 days for DSO.

Turning to the net inventory line, you'll see total inventories increased by \$2.1m to \$7.3m from the first quarter. With annualized inventory terms declining from the exceptionally strong 15 turns in Q1 to 13 turns in Q2. As we stated on the last earnings call, we anticipate that going forward 2003 that 12 turns is a more realistic target in order to balance service levels with anticipated sales growth.

Moving down the balance sheet, total current liabilities declined by \$1.7m to \$56.2m as of June 30th due in part to the reduction in the previously mentioned vendor cancellation charges. As of June 30th the vendor cancellation liability on the balance sheet stood at \$6.5m. We ended the quarter with 404 employees compared to 406 employees as at March 31st. Over the next two quarters we anticipate this number will increase slightly to support the anticipated growth in CMTS deployment and in completion of important milestones on our product development roadmaps.

Let's turn now to our target revenue and net loss per share expectations for Q3. Before I do that, let me again remind you that this is forward looking information, subject to the safe harbor disclosure that was made today at the beginning of this teleconference.

We are targeting revenues for Q3 to be in the range of \$33.0m to \$36.0m. We have factored in the absence

of the Telco Mini Flex revenue stream due to our sale of the product line early this month, as well substantially lower demand for our Legacy SCMA products. The net loss per share is anticipated to be in the range of 14 cents to 16 cents per share, based on 74.5m average shares outstanding. We are targeting to end the quarter with approximately \$144m to \$147m in cash and equivalence and are anticipating no change in the amount of debt on our balance sheet.

So with that, I'd like Mark to open up the teleconference for questions, Monica.

OPERATOR: Thank you sir. We will now begin the question and answer session for investor/analysts. If you have a question you will need to push the star 1 on your touch tone phone (technical difficulty) to be placed in queue. If your question is answered, and you wish to be removed from the queue, please press the pound sign. If you are using a speakerphone, please pick up your handset before pressing the numbers. Once again, if there are any questions please press star 1 on your touchtone phone. One moment please. And our first question comes from Chet White from Merriment, Kerman and Ford. Please go ahead with your question.

CHET WHITE, ANALYST, MERRIMAN, KERMAN AND FORD: Thank you. Very nice quarter gentlemen. I wanted to see if you could help me a little bit further on the EMPS win. Basically if I back into it, just if I get a hard number. The Legacy S-CDMA product ran about 2.5 million out of an 8.6?

ARTHUR TAYLOR: No, no. 2.4 million was the total amount of S-CDMA, both modems and Head-ends.

CHET WHITE: I see. So what then, could you help me get a breakdown on what the 2.0 CMTS number is, and how many costumers that shipped to?

ZAKI RAKIB: So, the vast majority of the \$8.6m in revenue from second quarter is related to Blue Wave, that's our DOCSIS 2.0 CMTS. And I would say that about somewhere between six and ten costumers in total would compose this revenue.

CHET WHITE: I see and the only North American costumer was Adelphia, of the majors was it Adelphia thus far?

ZAKI RAKIB: Of the majors you're right it would be Adelphia.

CHET WHITE: Okay. And, but you're testing at three additional --?

ZAKI RAKIB: Three additional to Adephia, yes.

CHET WHITE: Additional too - so basically almost all of them, and as I recall, have you have any recent change our success over at Time Warner?

ZAKI RAKIB: I mean, I'd rather not comment on this at this point, but we're engaged with all the significant cable operators at various stages, and Time Warner being a significant cable operator, we definitely target that costumer. I am not at liberty to, cannot add any further comments on this situation.

CHET WHITE: Okay. And before I leave CMTS, could you describe the temperature of some of the MSOs? It sounds like for those three reasons you mentioned, it is heating up. Are they looking more towards, obviously they all had say voice over IP video and advanced services in their pipeline. Would you say that they've accelerated that pipeline to try to get those types of advanced services deployed within '03, or at least the first half of '04? Is there any time frame that you have in mind our at least your getting a read from them on?

ZAKI RAKIB: So, what we're getting first is that the earlier reaction to the heated competition in high-speed data is likely to be by increasing services. Basically providing the user with a richer experience. And the first one with the, on the existing high speed data kind of offering, is to increase the throughput, increase the speed. So, that in return actually means potentially buying more CMTSs, so we view this as very positive.

The next thing relative to high-speed data and video on demand, I don't see necessarily an increase or an acceleration. This is something that they had plans for and they're executing on those plans, except that those plans are becoming more apparent to, you know the vendor community of course and to the costumers.

And I think the third piece which you mentioned relative to voice, I don't know if I can see yet that the plans for deploying voice has accelerated or otherwise. But clearly the trend is to offer a richer experience, bundling more services and I think ultimately voice will fall into this category.

CHET WHITE: I see. But you would suggest that the tempo or the activity level for at least the advance data rate services is increasing?

ZAKI RAKIB: Yes.

CHET WHITE: Okay. And then so, --

ARTHUR TAYLOR: Chad, can we have other folks ask questions and come back at the end?

CHET WHITE: Sure, that'd be great.

ARTHUR TAYLOR: Thanks.

OPERATOR: Thank you. Our next question comes from Anton Wahlman, from Needham and Company. Please go ahead with your question.

ANTON WAHLMAN, ANALYST, NEEDHAM AND COMPANY: Hey this is (inaudible), Art and Doug can you hear me?

DOUGLAS SABELLA, COO, **TERAYON** COMMUNICATIONS SYSTEMS: Yes.

ANTON WAHLMAN: Two updates. First of all on sort of the CMTS overall time to market advantage that you are enjoying. With the six players in the market, you obviously using your own silicon and I guess Juniper will be using their own silicon and the other four are using BroadCom one way or the other and clearly as you've been discussing in the past that your time to mark advantage is on the order of maybe a year, maybe more, maybe something like that. Is there an update on the thoughts as to when you think that competitive DOCSIS 2.0 compliant product will be out there? Irrespective of whether those will be optimized for 2.0, but, so they could at least sort of pass the test and be shipped out there, do you think that is three or six or twelve months away or what do you think?

ZAKI RAKIB: It's consistent with what we've anticipated in the beginning of the year right after we have received the qualification, we expect vendors to be attempting to come in, in the next couple of months with products for the purpose of getting qualified. We are assuming that there's a possibility that one of those vendors could get qualified by the end of this year, so it would remain consistent with what we've said earlier. You mentioned in your question that they're other considerations in the decision that a cable operator will look at. If an operator is looking at the flowing 2.0, the maturity of the software above and beyond the qualification status will be considered heavily, and I think in that respect our lead at this point is somewhere between I would say six and nine months ---- sorry nine months and twelve months, at least.

ANTON WAHLMAN: Okay, all right, well that makes sense. The—On the silicon side I mean over the course of the past two or so years, you've been discussing the notion of either selling the product meaning just selling your chips to other modem and potentially at some point to other CMTS makers as well. You're still looking at it, but can you give an update on your continued thought and efforts are lack thereof in that market? And if this would still extend to the notion that you'd still consider at some point divesting the silicon business or is it something at this point you're more interested in holding on to at least for the time being.

ZAKI RAKIB: Well we've only said that the silicon is a great asset that **Terayon** has. And you're right that some time we were contemplating the diversification of such an asset and the ability to sell chips not only to **Terayon**. As we come through that exercise and as we were starting to improve our situation in the US primarily and focusing on our DOCSIS 2.0 offerings, we actually view that this asset currently being vertically integrated inside **Terayon** is probably the best way of materializing it. And it's paying off and our ability to differentiate our products. Earlier you asked about you know the others have really are relying heavily on a single source, so when an operator buys a modem he's likely to buy from multiple modem vendors. He's actually locked into a single source, being primarily Broadcom, whereas we provide the alternatives.

It also is helpful on our cost structure both on the modems and the CMTS and provides us with the ability to have—to become the cost leader when it comes to such products. And as I said earlier differentiating ourselves. So I'm not dismissing and later in the future an opportunity where we would revisit this decision and we look at the asset and decide whether it make sense for the company to diversify or not. But at this time it really serves our prose in advancing our CMTSs in the market and gain market share.

ANTON WAHLMAN: Make sense. Just one clarification you said earlier regarding telephony. You said that you didn't see that, you know the tipping point of come where IP telephony gets started. Did I hear right on that or is just that you don't see any demand on the horizon for you know cable modems that have essentially RJ11 jack on the back of them at this point?

ZAKI RAKIB: No what I meant to say is there was no acceleration of existing plans. That's what I meant. The

plans include the inclusion or include the introduction of voice services, be it over packaged cable or over software or a combination of both. And in fact we are seeing growing demand, at least at the exploration stage right now and what are those at home that would serve both data and voice? Are they an integrated product or like we have introduced the snap on concept where you buy a modem and later on you can snap to this modem a module that allows you now to not only offering data services but voices over IP be it set based or packaged cable base.

ANTON WAHLMAN: Thank you.

ZAKI RAKIB: You're welcome.

OPERATOR: Our next question comes from George Notter from Deutsche Bank please go ahead.

GEORGE NOTTER, ANALYST, DEUTSCHE BANK: Hi guys. I wanted to ask you a question on the sales cycle you're testing in three of the remaining five MSOs. Can you give us any sense you know while not naming the customers, but just give us a sense for what some of the milestones are towards penetrating those customers and to maybe where you are in terms of you know progressing for those milestones. Any flavor like that would be great.

ZAKI RAKIB: Sure. So one situation with one of the top five, again the three that are currently we refer to as currency being tested, is a situation where there is a likelihood to converge towards a decision in the fall. So from a cycle—a sales cycle we've gone through about six months of test, etcetera, and we expect that by the fall there will be a significant decision in terms of its impact on us, it's not likely to have any financial impact before either very late in the fourth quarter or even you know the first quarter of next year.

So then the other two are at a full test and part of an RSP, RSQ that multiple vendors are involved in it, of course and that cycle is likely to end more towards the end of the year in anticipation of significant deployment over 2004. So again on those other two opportunities we expect that we would know by the end of the year and that we would resume and we would be able to get business if we get selected in the beginning of next year.

GEORGE NOTTER: Got it. And then as a quick follow up, you mentioned the top five North American MSOs, we talked about Adelphia, you highlighted these other three, what about that fifth customer, that one where they decided not to go with **Terayon** or is that not the case there?

ZAKI RAKIB: Well not really that is a customer that is currently making decisions about how they're going to do about doing the next generation CMTS. They have had a current vendor that has been their primary vehicle for deploying DOCSIS and data, and now they are in the process of making a decision, what is the process by which they would select the second vendor to be deployed next year, and I believe that process probably would be decided in the September time frame. And again this is a guess, I don't have any evidence that this is going to happen, but then I believe that the cycle for this fifth vendor could be somewhere between 3 to 6 months, so that fifth operator may make a decision not earlier than the end of the first quarter of 2004.

GEORGE NOTTER: Got it. And then you're obviously involved there, is that fair to say?

ZAKI RAKIB: Just like any other vendor I wouldn't consider us to be in any better or worse situation than any other valid legitimate vendor, and, you know, the good question here to ask is how many vendors would be there in the CMTS space by the end of the year.

GEORGE NOTTER: Right. And then last question and I'll let you go, I mean, I pass it along, but, you know, your Asian business looks like it was up quite a bit on the CMTS side this quarter, is there, you know, any lumpiness in the ordering patterns from those customers? Should we think about some of those customers maybe not recurring as strongly, you know lets say in Q3 as they were in Q4, give us a sense and that would be great?

ZAKI RAKIB: No actually it's the opposite. We see those customers providing recurring as off course like in any CMTS deployment there's several quarters of growth for those customers then, it kind of flattens out and maybe declines, and then in favor of hopefully additional customers. But that's been kind of a normal cycle in CMTS as we are actually in the beginning of that cycle with those customers that you referred to.

GEORGE NOTTER: Great thanks.

ZAKI RAKIB: You're welcomed.

OPERATOR: Thanks. Our next question comes from Maurice McKenzie from FRIEDMAN, BILLINGS, RAMSEY GROUP INC. Please go ahead.

MAURICE MCKENZIE, ANALYST, FRIEDMAN, BILLINGS, RAMSEY GROUP INC: Congratulations on the quarter.

ZAKI RAKIB: Thank you.

MAURICE MCKENZIE: Great job on the OpEx line, came down about 15%. Can you discuss gross margins and where you see those going assuming a more favorable mix CMTS? And secondly if you could discuss, you know, broadly margins the TJ products for the modems?

ARTHUR TAYLOR: Overall, you know for the quarter, we are at 22% and we are targeting to — we see our target operating model getting us to around 35% to 40% gross margin, and clearly that would be something we'd like to accomplish through improved sales mix and reduced product cost as we have outlined. We think that's very achievable within the next four quarters. And again, the gross margin profile of our products, we have the CMTS and video business which are generally much higher margin products than the modem business. With our qualification that we received in May on our new modem chip, that will be placed into the inventory in Q3, Q4. That has a substantially improved product costing profile, so we anticipate gross margins on our modem business to continue to improve throughout the rest of this year and into next year.

MAURICE MCKENZIE: Great Art.

OPERATOR: And we have our follow up from Chet White. Please go ahead.

CHET WHITE: Just an additional question on the modem side. You said pricing came down about a lower than 10%, and I'm wondering you've had a great run with the modems thus far, are you seeing some new competition with other entries of two other modems(technical difficulty) here take a bite or get some traction? And if not so much thus far, what do you expect for the second half on the modem side for competitive opportunities?

ZAKI RAKIB: Not really, I mean the competition remains within the big five, us included. And, you know, the big five have I believe close to 80% of the total available market share. So, yes there's some fights on market share which we have anticipated, and at this point we don't anticipate major declines in the ASPs in the coming two quarters, just because the very, or less room in reducing cost of those products, and as those, you know five vendors are trying to compete in market share, none of us really is going to go and take this business into negative gross margins or anything like that. So, I believe that prices are getting closer to a point where they are stabilizing and then - that the declines is going to be rather small.

CHET WHITE: And what do you think would drive continued market share momentum for you?

ZAKI RAKIB: The - several reasons one of them is that as the operator are getting closer to a point where they want to deploy DOCSIS 2.0 as a - as basically as part of their strategy, there is a tendency to go with the leaders in this area and we're clearly the leader in that area with the highest number of DOCSIS 2.0 modems sold, so that is helping us. As the operators are looking into- into or more operators are looking to Blue Wave and looking at the head end side, they are also realizing that there are advantages in - in having end-to-end solutions, so, including the modem. And third, we are an alternative, until now there wasn't a really a significant alternative to BroadCom and we're being viewed now as a real valid solid alternative so that the operators can feel more secure by having multiple sources, so that - that that is a way to achieve a second source strategy.

I mentioned earlier in one of my answers is that, when they buy from several modem vendors, although in theory it is multiple sources, it's really a single source solution with BroadCom being the source of the chip which is the heart and mind of the modem. So, that - that would be the third reason. And overall, our quality has been consistently good and when they look at the other alternatives, primarily you mentioned some of the new potential commerce, their quality is not there and we don't anticipate that they would have any footstep into the U.S market because of quality issues.

CHET WHITE: So, it's fair that both the modems and CMTS could be a good growth driver for Q3 and beyond?

ARTHUR TAYLOR: Yes, (inaudible)

CHET WHITE: Thank you very much.

OPERATOR: If there are any other questions from investor analysts please press star 1 on your touchtone phone. And at this time I am not showing any further questions from investor analysts.

ARTHUR TAYLOR: Great, thank you very much for joining us, we look forward to updating you on our progress next quarter.

ARTHUR TAYLOR: Thank you.

OPERATOR: Thank you and ladies and gentlemen, this does conclude our 2003 second quarter earnings call. You may all disconnect and thank you for participating.

[CCBN reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.]

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES CCBN ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS. Copyright 2003, CCBN, Inc. All Rights Reserved.]

[Copyright: Content copyright 2003 CCBN, Inc. ALL RIGHTS RESERVED. Electronic format, layout and metadata, copyright 2003 FDCH e-Media, Inc. (f/k/a Federal Document Clearing House, Inc.) ALL RIGHTS RESERVED. No license is granted to the user of this material other than for research. User may not reproduce or redistribute the material except for user's personal or internal use and, in such case, only one copy may be printed, nor shall user use any material for commercial purposes or in any fashion that may infringe upon CCBN's or FDCH e-Media's copyright or other proprietary rights or interests in the material; provided, however, that members of the news media may redistribute limited portions (less than 250 words) of this material without a specific license from CCBN and FDCH e-Media so long as they provide conspicuous attribution to CCBN and FDCH e-Media as the originators and copyright holders of such material. This is not a legal transcript for purposes of litigation.]

Document FNDW000020030821dz7u000yi

# **EXHIBIT 44**

Terayon Communications Systems, Inc., Form 8-K

Table of Contents

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

-----  
FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: October 2, 2003  
(Date of earliest event reported)

TERAYON COMMUNICATION SYSTEMS, INC.

-----  
(Exact name of Registrant as specified in its charter)

-----  
Delaware 000-24647 77-0328533

-----  
(State or other jurisdiction(Commission (I.R.S. employer  
of incorporation) file number)identification no.)

4988 Great America Parkway, Santa Clara, CA 95054

-----  
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (408) 235-5500

-----  
TABLE OF CONTENTS

Item 9. Regulation FD Disclosure.

Item 12. Results of Operations and Financial Condition.

Item 7. Exhibits.

SIGNATURES

INDEX OF EXHIBITS

EXHIBIT 99.1

EXHIBIT 99.2

EXHIBIT 99.3

-----  
Table of Contents

Item 9. Regulation FD Disclosure.

On October 2, 2003, Terayon Communication Systems, Inc. (Company) issued a press release that Comcast would use the Company's DOCSIS 2.0-qualified Cable Modem Termination System (CMTS) equipment in the development of Comcast's headend platforms as a way to expedite the ubiquitous adoption of DOCSIS 2.0 in Comcast's networks. A copy of the Company's press release is attached hereto as Exhibit 99.1.

On October 6, 2003, the Company issued a press release announcing the appointment of two new executives to its senior management team. A copy of the Company's press release is attached hereto as Exhibit 99.2.

Item 12. Results of Operations and Financial Condition.

On October 7, 2003, the Company announced via press release the Company's preliminary results for the third quarter ended September 30, 2003. A copy of the Company's press release is attached hereto as Exhibit 99.3. This Form 8-K and the attached exhibit are furnished to, but not filed with, the Securities and Exchange Commission.

Item 7. Exhibits.

99.1Press Release, dated as of October 2, 2003, entitled Comcast Enters Into Collaborative Agreement With Terayon For Development of Docsis 2.0 Data Headend Platform.

99.2Press Release, dated October 6, 2003, entitled Terayon Strengthens Senior Management Team to Capitalize on Growth Opportunities in the Broadband Industry.

99.3Press Release, dated as of October 7, 2003, entitled Terayon Provides Update on Better Than Expected Third Quarter Financial Performance.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Terayon Communication Systems, Inc.

By: /s/ Arthur T. Taylor

-----  
Arthur T. Taylor  
Chief Financial Officer

Date: October 7, 2003

-----  
Table of Contents

INDEX OF EXHIBITS

99.1Press Release, dated as of October 2, 2003, entitled Comcast Enters Into Collaborative Agreement With Terayon For Development of Docsis 2.0 Data Headend Platform.

99.2Press Release, dated October 6, 2003, entitled Terayon Strengthens Senior Management Team to Capitalize on Growth Opportunities in the Broadband Industry.

99.3Press Release, dated as of October 7, 2003, entitled Terayon Provides Update on Better Than Expected Third Quarter Financial Performance.

## EXHIBIT 99.1

Exhibit 99.1

## COMCAST ENTERS INTO COLLABORATIVE AGREEMENT WITH TERAYON FOR DEVELOPMENT OF DOCSIS 2.0 DATA HEADEND PLATFORM

PHILADELPHIA and SANTA CLARA, Calif. - Terayon Communication Systems, Inc. (Nasdaq: TERN) DOCSIS 2.0-qualified Cable Modem Termination System (CMTS) equipment will be used in the development of Comcast's headend platforms as a way to expedite the ubiquitous adoption of DOCSIS 2.0 in Comcast's networks, the companies announced today.

After the encouraging results of the first phase of testing and characterization, Comcast will move to the next development phase that could enable its networks to capitalize on the advantages that DOCSIS 2.0 technology offers. Benefits of DOCSIS 2.0 technology include spectral efficiency, better noise immunity and increased bandwidth for the launch of next generation products and services.

In the next testing phase, Comcast and Terayon will cooperate in all aspects of operational readiness for DOCSIS 2.0 deployment. These steps include changes in provisioning, operating profiles selection and system integration.

In the interim, Comcast will continue to deploy its current Next-Generation DOCSIS 1.x CMTS equipment. Currently, Comcast deploys a single CMTS to support DOCSIS 1.1 features and the company will look to add a second source shortly to round out its DOCSIS 1.1 CMTS certifications. Such products are expected to have the future capability to support the planned DOCSIS 2.0 deployments.

"We believe that sourcing critical networking components from multiple vendors is in the best interest of Comcast," said David Fellows, Comcast's Chief Technology Officer. "Furthermore, a multiple vendor strategy guarantees healthy competition that results in innovation. Our decision regarding Terayon is consistent with our philosophy. We look forward to continuing our work with Terayon to introduce the next generation of products and services to our customers."

"We are very gratified with Comcast's decision. The collaborative effort validates the advantages of DOCSIS 2.0 and provides credibility for Terayon, its solutions and its innovations," said Zaki Rakib, Terayon's Chief Executive Officer. "With other cable operators deploying our BW CMTS in DOCSIS 2.0 operation mode, we believe it will be very valuable in competing for the next phase of Comcast's DOCSIS 2.0 deployments."

## About Terayon

Terayon Communication Systems, Inc. provides innovative broadband systems and solutions for the delivery of advanced, carrier-class voice, data and video services that are deployed by the world's leading cable television operators. Terayon, headquartered in Santa Clara, California, has sales and support offices worldwide, and is traded on the Nasdaq under the symbol TERN. Terayon can be found on the web at [www.terayon.com](http://www.terayon.com).

---

## About Comcast Cable

Headquartered in Philadelphia, Comcast Cable is a division of Comcast Corporation, a developer, manager and operator of broadband cable networks and

provider of programming content. Operating in 17 of the United States' 20 largest metropolitan areas, Comcast is one of the leading communications, media and entertainment companies in the world. Providing basic cable, Digital Cable, high-speed Internet and telephone services, Comcast is the company to look to first for the communications products and services that connect people to what's important in their lives. The company's 55,000 employees, in six divisions, serve more than 21 million customers.

# # #

"Safe Harbor" Statements under the Private Securities Litigation Reform Act of 1995:

Except for the historical information contained herein, this news release contains forward-looking statements, estimates and assumptions by Terayon and other parties that involve risks and uncertainties, including Terayon's ability to gain new business; Terayon's ability to sell products; Terayon's ability to develop new, technologically advanced products; the acceptance of Terayon's new products in the market; the expansion of operations by Terayon's customers and the deployment of Terayon's products in specific markets; as well as the other risks detailed from time to time in Terayon's filings with the Securities and Exchange Commission.

EXHIBIT 99.2

Exhibit 99.2

**Terayon Strengthens Senior Management Team to Capitalize on Growth Opportunities in the Broadband Industry**

Santa Clara, California - October 6, 2003 - Terayon Communication Systems, Inc. (Nasdaq: TERN), a leading provider of broadband solutions, today announced the appointment of two new executives to its seasoned management team. Jeffrey Barco has joined the company as Vice President and General Manager of Terayon's Digital Video Solutions Group, and William Rohrbach has joined Terayon as Vice President of North America Sales. Both individuals will report to Doug Sabella, Terayon's Chief Operating Officer.

"Jeff and Bill have the proven track-records, skills and discipline to help us maximize the opportunities that exist for increasing our share of the market for broadband data, video and voice solutions," said Sabella. "Jeff and Bill have each built several large, well run and successful customer-focused organizations over the years, making them ideal to help drive Terayon's growth while building on our reputation for responding quickly to customer needs. I look forward to working closely with them both to take advantage of the growth opportunities in the broadband industry."

Barco's responsibilities as Vice President and General Manager of Terayon's Digital Video Solutions Group, include charting the strategic direction for the group and the product line and to identify new market opportunities.

Barco brings more than 20 years of business and market development experience in the personal computer, digital media and broadband industries. He was most recently the President and CEO of BroadbandHome, a home networking company spun-off from IBM. Prior to BroadbandHome, Barco was Managing Director of Microsoft's Digital TV Platforms Group, coming to the company via its acquisition of WebTV, where he was Senior Director of the Broadband Networks Group. Before WebTV, Barco worked in the Digital Media and Interactive TV groups of Silicon Graphics, and prior to this spent 10 years at Apple Computer.

As Terayon's Vice President of North America Sales, Rohrbach will be responsible for expanding Terayon's business opportunities with major U.S. and

---

Canadian cable television operators. He is responsible for promoting sales of Terayon's complete line of data, video and voice solutions and will leverage the company's leadership position in DOCSIS 2.0 solutions with its CMTSs (Cable Modem Termination System) and cable modems.

Rohrbach comes to Terayon with 30 years of experience selling complex systems at Lucent and AT&T, where he held a variety of executive sales, management and market development positions. His sales experience with Lucent includes establishing and maintaining very large accounts with major domestic and international wireless and telecommunication companies, including Verizon Wireless.

#### About Terayon

Terayon Communication Systems, Inc. provides innovative broadband systems and solutions for the delivery of advanced, carrier-class voice, data and video services that are deployed by the world's leading cable television operators. Terayon, headquartered in Santa Clara, California, has sales and support offices

worldwide, and is traded on the Nasdaq under the symbol TERN. Terayon can be found on the web at [www.terayon.com](http://www.terayon.com).

# # #

"Safe Harbor" Statements under the Private Securities Litigation Reform Act of 1995:

Except for the historical information contained herein, this news release contains forward-looking statements, estimates and assumptions by Terayon and other parties that involve risks and uncertainties, including Terayon's ability to gain new business; Terayon's ability to develop new, technologically advanced products; the acceptance of Terayon's new products in the market; the sales of Terayon's new products; the expansion of operations by Terayon's customers and the deployment of Terayon's products in specific markets; as well as the other risks detailed from time to time in Terayon's filings with the Securities and Exchange Commission.

Note: Terayon and the Terayon logo are registered trademarks of Terayon Communication Systems, Inc. All other trademarks are property of their respective owners.

Exhibit 99.3

Exhibit 99.3

**Terayon Provides Update on Better Than Expected Third Quarter  
Financial Performance**

Santa Clara, California - October 7, 2003 - Terayon Communication Systems, Inc. (Nasdaq: TERN), a leading provider of broadband solutions, today announced it expects revenues for its third quarter ending September 30, 2003 to be in the range of \$37 million to \$38 million. Net loss per share for the quarter is now expected to be in the range of \$0.10 to \$0.12. Included in the expected net loss per share is approximately \$0.02 of non-recurring gain resulting from the reversal of a liability from a previously acquired company, and the Company's previously announced sale of its telco Miniplex product line and related inventory.

This revised guidance compares favorably with previously provided estimates by the Company that revenues for the third quarter would be in the range of \$33 million to \$36 million, and that the net loss per share would be in the range of \$0.14 to \$0.16, including an expected \$0.01 non-recurring gain from the Miniplex transaction.

In its second quarter ending June 30, 2003, Terayon reported net revenues of \$30.6 million and a net loss per share of \$0.18.

"Our better than expected revenue performance for the third quarter stems primarily from higher unit shipments of our DOCSIS 2.0 CMTS (Cable Modem Termination System), stronger sales of our video headend product line, and higher than anticipated sales of our legacy S-CDMA products, partially offset by somewhat lower than expected DOCSIS 2.0 modem sales," said Zaki Rakib, Terayon's CEO. "We are particularly pleased with the growing customer acknowledgement of the economic and performance advantages of our DOCSIS 2.0 BW CMTS, as evidenced by the revenue growth we have seen over the last three quarters. Our better than anticipated net loss performance for the quarter is attributable to higher sales, a favorable product mix resulting in higher gross margin, and lower operating expenses due to continued cost containment efforts."

---

Terayon will provide additional details on its business performance when it reports its third quarter financial results on Wednesday, October 22, 2003 after the market closes.

**About Terayon**

Terayon Communication Systems, Inc. provides innovative broadband systems and solutions for the delivery of advanced, carrier-class voice, data and video services that are deployed by the world's leading cable television operators. Terayon, headquartered in Santa Clara, California, has sales and support offices worldwide, and is traded on the NASDAQ under the symbol TERN. Terayon is on the web at [www.terayon.com](http://www.terayon.com).

# # #

**"Safe Harbor" Statements under the Private Securities Litigation Reform Act of 1995:**

Except for the historical information contained herein, this news release contains forward-looking statements, estimates, and assumptions by Terayon that involve risks and uncertainties, including the preliminary guidance on third

quarter 2003 revenues and net loss per share and the revenue growth with respect to Terayon's DOCSIS 2.0 BW CMTS. These forward-looking statements are based on current expectations and Terayon assumes no obligation to update this information. In addition, the events described in these forward-looking statements may not actually arise. Terayon's actual results could differ materially from those described in this press release as a result of various factors, including Terayon's ability to develop and bring to market new products, the acceptance of Terayon's new products in the market, Terayon's ability to gain new business, the expansion of operations by Terayon's customers, the deployment of Terayon's products in specific markets, the continued revenue growth with respect to Terayon's DOCSIS 2.0 BW CMTS, the product mix that Terayon sells each quarter which may affect gross margins, and Terayon's ability to lower and align its operating expenses with market conditions, as well as the other risks detailed from time to time in Terayon's filings with the Securities and Exchange Commission.

Note: Terayon and the Terayon logo are registered trademarks of Terayon Communication Systems, Inc. All other trademarks are property of their respective owners.

# **EXHIBIT 45**

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

-----  
FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: January 27, 2004  
(Date of earliest event reported)

TERAYON COMMUNICATION SYSTEMS, INC.

-----  
(Exact name of Registrant as specified in its charter)

-----  
Delaware 000-24647 77-0328533

-----  
(State or other jurisdiction(Commission (I.R.S. employer  
of incorporation) file number)identification no.)

4988 Great America Parkway, Santa Clara, CA 95054

-----  
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (408) 235-5500

-----

TABLE OF CONTENTS

Item 12. Results of Operations and Financial Condition  
Item 7. Exhibits  
SIGNATURES  
INDEX OF EXHIBITS  
EXHIBIT 99.1

---

Table of Contents

Item 12. Results of Operations and Financial Condition.

On January 27, 2004, the Company announced via press release the Company's financial results for the fourth quarter ended December 31, 2003. A copy of the Company's press release is attached hereto as Exhibit 99.1. This Form 8-K and the attached exhibit are furnished to, but not filed with, the Securities and Exchange Commission.

Item 7. Exhibits.

99.1Terayon Reports Fourth Quarter and Full Year 2003 Results And Announces Restructuring to Enhance Path to Profitability.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Terayon Communication Systems, Inc.

By: /s/ Arthur Taylor

-----

Arthur Taylor  
Chief Financial Officer

Date: January 27, 2003

-----

Table of Contents

INDEX OF EXHIBITS

99.1Terayon Reports Fourth Quarter and Full Year 2003 Results And Announces Restructuring to Enhance Path to Profitability.

## Exhibit 99.1

**TERAYON REPORTS FOURTH QUARTER AND FULL YEAR 2003 RESULTS  
AND ANNOUNCES RESTRUCTURING TO ENHANCE PATH TO PROFITABILITY**

Santa Clara, California - January 27, 2004 - Terayon Communication Systems, Inc. (Nasdaq: TERN), the leading innovator of intelligent broadband access, today announced financial results in line with its previous guidance for the fourth quarter and year ended December 31, 2003. Revenue for the fourth quarter of 2003 was \$43.0 million, a 70% increase compared to \$25.3 million for the same quarter a year ago, and a 14% increase compared to \$37.6 million for the third quarter of 2003. Revenue for the twelve months ended December 31, 2003 was \$133.5 million, a 3% increase compared to \$129.4 million for the twelve months ended December 31, 2002.

Net loss for the fourth quarter of 2003 was \$6.0 million, or \$0.08 per share, compared to a net loss of \$20.5 million, or \$0.28 per share, for the same quarter a year ago and a net loss of \$7.2 million, or \$0.10 per share, for the third quarter of 2003. Net loss for the twelve months ended December 31, 2003 was \$50.4 million, or \$0.68 per share, compared to a net loss for the twelve months ended December 31, 2002 of \$44.2 million, or \$0.61 per share.

"2003 was a critical year of transition and milestone achievements for Terayon," said Zaki Rakib, Terayon's Chief Executive Officer. "We successfully completed the company migration from proprietary, baseline access products to standards-based and intelligent access products that lead the market, enabling broadband providers to deliver faster speeds and new services like voice and video conferencing through more economical, efficient networks. Further, we have begun to execute on our plan to expand the market applicability of intelligent access products as evidenced by our selection by FOX Network for its broadcast high definition distribution system for its affiliates nationwide beginning in 2004."

#### 2003 COMPANY HIGHLIGHTS

In 2003, Terayon successfully transitioned from proprietary S-CDMA-based CMTSs and modems to DOCSIS 2.0 standards-based products, and now is firmly established as the technology leader with the industry's only complete, end-to-end DOCSIS 2.0 cable data system.

After receiving DOCSIS 2.0 qualification at the end of 2002, Terayon captured approximately 13% market share in the worldwide CMTS market during 2003 with the Terayon BW 3000 DOCSIS 2.0-qualified CMTS product line. Terayon's cable modem business has grown to #3 market share in North America as measured and reported by Kinetic Strategies for the third quarter of 2003, rising from the #5 position in the same quarter a year ago. Terayon's digital video business successfully capitalized on the increasing demand for HDTV and digital ad insertion, with video revenues in the second half of 2003 growing 70% over the first half of 2003. The focus on operational execution enabled these significant milestones while also improving gross margin performance, lowering operating expenses, and maintaining the focus on superior customer service and support.

"Cable operators are responding to customer needs and competitive pressures by offering more bandwidth-intensive services such as faster high-speed data access, voice over the Internet (VoIP), HDTV, and Video on Demand in response to consumer and enterprise requirements and increasing competition from telecom and satellite operators," continued Rakib. "Our goals for 2004 include: (1) capitalizing on our technology leadership and the opportunities created by these favorable market conditions to increase share across our CMTS, Subscriber and Digital Video businesses, (2) leveraging our best-of-breed digital video processing product line into other vertical markets including satellite, broadcast and telecom, and (3) achieving sustainable profitability through a combination of revenue growth, operational efficiencies, expense management, and strategic partnerships."

As of December 31, 2003, Terayon had \$138.6 million in cash, cash equivalents and short-term investments, and \$65.1 million in convertible debt due in 2007. Accounts receivable days sales outstanding (DSO) for the fourth quarter of 2003 was 62 days, compared with 71 days reported for the quarter ended September 30, 2003.

#### RESTRUCTURING ACTIVITIES

Terayon today announced its plans to reduce operating expenses and realign resources during the first quarter of 2004. This action is designed to advance the company towards sustainable profitability while retaining the resources necessary to drive innovation to capitalize on the growing market need for intelligent broadband access solutions. Related actions include: (1) a reduction in workforce of approximately 17%, or 70 employees, (2) the consolidation of

certain facilities, (3) the write-down of related facility assets, and (4) a reduction in targeted areas of discretionary spending. The effect of these actions is expected to yield annualized operating savings of approximately \$10 million to \$12 million. Terayon expects to record a charge of approximately \$5 million to \$7 million in the quarter ending March 31, 2004 as a result of these actions.

"As we announced in December 2003, we are targeting profitability beginning in the second quarter of 2004. The steps we are taking now provide us with a clearer path towards this objective by lowering our breakeven revenue point, re-sequencing our R&D pipeline to better align with customer timing requirements, and improving our overall efficiency by streamlining the organization and bolstering core processes," said Doug Sabella, Terayon's Chief Operating Officer. "Now that we have introduced our CableLabs-certified, low cost IM6130 modem chip into production and established market acceptance of our Terayon BW 3000 DOCSIS 2.0-qualified CMTS product line, we are able to free up and re-deploy certain engineering and technical resources. We remain committed to our position as technology leader and innovator in the broadband access space, and to our reputation for unparalleled customer service and support."

#### BUSINESS OUTLOOK

For the first quarter of 2004, Terayon expects to report revenue in the range of \$39 million to \$42 million and a net loss in the range of \$0.07 to \$0.09 per share, excluding the effects of the estimated \$5 million to \$7 million charge. Including the effects of the estimated charge, the net loss is expected to be in the range of \$0.14 to \$0.18 per share.

Terayon will host a conference call today at 2 p.m. Pacific Time (5 p.m. Eastern Time) to further discuss its fourth quarter and full year 2003 financial performance. A live audio webcast of the call will be available to the public from Terayon's website at [www.terayon.com/investor](http://www.terayon.com/investor). A replay of the conference call will be available via webcast at [www.terayon.com/investor](http://www.terayon.com/investor) beginning at 4 p.m. Pacific Time on January 27, through February 27, 2004. In addition, a replay of the conference call will be available via telephone during this period by dialing 877-213-9653 (U.S.) or 630-652-3041 (international). The access code for the replay is 8246781.

## ABOUT TERAYON

Terayon Communication Systems, Inc. is the leading innovator of intelligent broadband access for operators who want to deliver the widest range of advanced data, video and voice services. Terayon maintains its headquarters in Santa Clara, California, and has sales and support offices worldwide. The company is traded on the Nasdaq under the symbol TERN and can be found on the web at [www.terayon.com](http://www.terayon.com).

INVESTOR CONTACT:	# # # PRESS CONTACT:	
Kristin Stokan Director, Finance Operations (408) 486-5206 KRISTIN.STOKAN@TERAYON.COM	John Giddings PR Manager (408) 486-5223 JOHN.GIDDINGS@TERAYON.COM	Margaret Huang Atomic Public Relations (415) 703-9454 MARGARET@ATOMICP.R.COM

"Safe Harbor" Statements under the Private Securities Litigation Reform Act of 1995:

Except for the historical information contained herein, this news release contains forward-looking statements, estimates, and assumptions by Terayon that involve risks and uncertainties, including Terayon's guidance on first quarter 2004 revenues, net loss per share, estimated restructuring charge, estimated operating cost savings, and Terayon's estimated timeline for profitability. These forward-looking statements are based on current expectations and Terayon assumes no obligation to update this information. In addition, the events described in these forward-looking statements may not actually arise. Terayon's actual results could differ materially from those described in this press release as a result of various factors, risks and uncertainties, including Terayon's ability to develop and bring to market new products; the acceptance of Terayon's new products in the market; Terayon's ability to gain new business; the expansion of operations by Terayon's customers; the deployment of Terayon's products in specific markets; the continued revenue growth with respect to the Terayon BW 3000 CMTS product line, the Terayon TJ700 Cable Modem product line, and the Terayon Network CherryPicker product line; the product mix that Terayon sells each quarter which may affect gross margins; and Terayon's ability to lower and align its operating expenses with market conditions; as well as the other risks detailed from time to time in Terayon's filings with the Securities and Exchange Commission.

Note: Terayon and the Terayon logo are registered trademarks of Terayon Communication Systems, Inc. All other trademarks are property of their respective owners.

TERAYON COMMUNICATION SYSTEMS, INC.  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED		
	DECEMBER 31, 2003	SEPTEMBER 30, 2003	DECEMBER 31, 2002
Revenues	\$ 42,990	\$ 37,628	\$ 25,303
Cost of goods sold	30,272	27,434	22,609
Gross profit	12,718	10,194	2,694
Operating expenses:			
Research and development	10,042	9,363	12,737
Sales and marketing	7,040	6,452	7,684
General and administrative	2,617	2,783	3,062
Restructuring costs (reversal) and asset write-offs	--	(244)	--
Total operating expense	19,699	18,354	23,483
Loss from operations	(6,981)	(8,160)	(20,789)
Interest income	523	583	1,202
Interest expense	(841)	(787)	(826)
Other income	1,387	1,238	51
Loss before income tax expense	(5,912)	(7,126)	(20,362)
Income tax expense	(103)	(84)	(104)
Net loss	\$ (6,015)	\$ (7,210)	\$ (20,466)
Net loss per share, basic and diluted	\$ (0.08)	\$ (0.10)	\$ (0.28)
Shares used in per share calculation, basic and diluted	74,867	74,551	73,078

TERAYON COMMUNICATION SYSTEMS, INC.  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,	
	2003	2002
Revenues	\$ 133,485	\$ 129,403
Cost of goods sold	101,034	100,949
Gross profit	32,451	28,454
Operating expenses:		
Research and development	42,839	58,696
Sales and marketing	26,781	35,704
General and administrative	12,128	14,715
Restructuring costs and asset write-offs	2,802	8,922
Total operating expense	84,550	118,037
Loss from operations	(52,099)	(89,583)
Interest income	2,917	6,838
Interest expense	(3,279)	(6,174)
Other income (expense)	2,424	(4,145)
Gain on early retirement of debt	--	49,089
Loss before income tax expense	(50,037)	(43,975)
Income tax expense	(316)	(238)
Net loss	\$ (50,353)	\$ (44,213)
Net loss per share, basic and diluted	\$ (0.68)	\$ (0.61)
Shares used in per share calculation, basic and diluted	74,212	72,803

TERAYON COMMUNICATION SYSTEMS, INC.  
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS)

	DECEMBER 31, 2003	DECEMBER 31, 2002
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 30,188	\$117,079
Short-term investments	108,452	89,424
Accounts receivable, net	29,799	17,197
Other receivables, net	3,662	2,597
Inventories, net	16,364	8,257
Prepaid expenses and other	2,883	8,263
Total current assets	191,348	242,817
Property and equipment, net	11,871	17,906
Intangibles and other assets, net	12,021	14,987
Total assets	\$215,240	\$275,710
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 26,049	\$ 23,920
Accrued payroll and other liabilities	29,355	46,068
Total current liabilities	55,404	69,988
Non-current liabilities	68,448	68,580
Stockholders' equity	91,388	137,142
Total liabilities and stockholders' equity	\$215,240	\$275,710
	=====	=====

# **EXHIBIT 46**

Table of Contents

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

-----  
FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: April 29, 2004

-----  
(Date of earliest event reported)

TERAYON COMMUNICATION SYSTEMS, INC.

-----  
(Exact name of Registrant as specified in its charter)

-----  
Delaware 000-24647 77-0328533

-----  
(State or other jurisdiction (Commission file number) of incorporation) (I.R.S. employer identification no.)

4988 Great America Parkway, Santa Clara, CA 95054

-----  
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (408) 235-5500

-----  
-----

TABLE OF CONTENTS

Item 12. Results of Operations and Financial Condition.  
Item 7. Exhibits.  
SIGNATURES  
INDEX OF EXHIBITS  
EXHIBIT 99.1

---

Table of Contents

Item 12. Results of Operations and Financial Condition.

On April 29, 2004, Terayon Communication Systems, Inc. (Company) announced via press release the Company's financial results for the first quarter ended March 31, 2004. A copy of the Company's press release is attached hereto as Exhibit 99.1. This Form 8-K and the attached exhibit are furnished to, but not filed with, the Securities and Exchange Commission.

Item 7. Exhibits.

99.1Terayon Reports First Quarter 2004 Results.

---

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Terayon Communication Systems, Inc.

By: /s/ Arthur Taylor

-----

Arthur Taylor  
Chief Financial Officer

Date: April 30, 2004

-----

Table of Contents

INDEX OF EXHIBITS

99.1Terayon Reports First Quarter 2004 Results.

Exhibit 99.1

## TERAYON REPORTS FIRST QUARTER 2004 FINANCIAL RESULTS

Santa Clara, California - April 29, 2004 - Terayon Communication Systems, Inc. (Nasdaq: TERN), a leading provider of broadband access, delivery and management solutions, today reported financial results in line with prior guidance for the quarter ended March 31, 2004.

Revenues for the first quarter of 2004 were \$41.2 million, an increase of 85% compared to \$22.3 million for the first quarter of 2003, and a decrease of 4% from \$43.0 million for the fourth quarter of 2003. Net loss for the first quarter of 2004 was \$10.2 million, or \$0.14 per share, which compares to a net loss of \$24.0 million, or \$0.33 per share, for the first quarter of 2003 and a net loss of \$6.0 million, or \$0.08 per share, for the fourth quarter of 2003. The results for the first quarter of 2004 include a charge of \$3.4 million, or \$0.05 per share, related to restructuring activities and related asset write-offs. The results for the fourth quarter of 2003 include a non-operating gain of \$0.01 per share related to a favorable litigation settlement.

"We are pleased with the performance of our digital video solutions and subscriber product lines, which had higher than anticipated sales for the quarter. While our CMTS sales in North America were also strong, they were offset by weaker CMTS sales in Asia as several customers extended their original deployment timeframes," said Zaki Rakib, Terayon's Chief Executive Officer. "Important milestones for us during the quarter include: (i) the introduction of our award-winning Terayon BP 5100-HD broadcast platform, and its adoption by FOX Broadcasting Company to power their HDTV delivery system; (ii) a record number of shipments of our TJ 700 family of DOCSIS 2.0-certified modems, which we believe will further solidify our position as number two worldwide cable modem supplier as first reported by Kinetic Strategies for the fourth quarter of 2003; and (iii) surpassing the 2,500 unit shipment mark for DOCSIS 2.0 CMTS line cards since our qualification by CableLabs in December 2002. Going forward, we believe having the only proven end-to-end DOCSIS 2.0 solution and the best-of-breed digital video processing product line positions us to capitalize on the accelerating growth of new, bandwidth-intensive service offerings such as HDTV, VOD, VoIP and commercial services."

Terayon's Digital Video Solutions product line had revenues of \$6.1 million in the first quarter of 2004, compared to \$2.8 million in the first quarter of 2003 and \$6.6 million in the

fourth quarter of 2003. The Subscriber product line had revenues of \$23.8 million in the first quarter of 2004, compared to \$13.7 million in the first quarter of 2003 and \$18.5 million in the fourth quarter of 2003. The CMTS product line had revenues of \$11.1 million in the first quarter of 2004, compared to \$4.5 million in the first quarter of 2003 and \$17.5 million in the fourth quarter of 2003. In addition, sales of legacy telecom products contributed revenues of \$0.2 million in the first quarter of 2004, compared to \$1.3 million in the first quarter of 2003 and \$0.4 million in the fourth quarter of 2003.

Terayon ended the first quarter with \$123.2 million in cash, cash equivalents and short-term investments, and \$65.1 million in convertible debt due in 2007. Accounts receivable days sales outstanding (DSO) as of March 31, 2004 was 63 days, compared with 62 days reported as of December 31, 2003.

#### RESTRUCTURING ACTIVITIES

The first quarter 2004 restructuring activities announced by Terayon on January 27, 2004 have extended into the second quarter of 2004. During the first quarter of 2004 Terayon recognized a \$3.4 million charge related to first quarter restructuring activities, as compared to the original estimated charge of \$5 million to \$7 million. During the second quarter of 2004 Terayon expects to record an additional charge of approximately \$1.5 million to \$2.0 million related to the completion of these restructuring activities. The cumulative effect of the actions taken over the first and second quarters of 2004 is expected to yield annualized operating savings of approximately \$10 million beginning in the second quarter of 2004.

#### BUSINESS OUTLOOK

For the second quarter of 2004, Terayon expects to report revenues in the range of \$42 million to \$46 million and anticipates a net loss in the range of \$0.02 to \$0.04 per share, excluding the effects of the estimated \$1.5 million to \$2.0 million charge. Including the effects of the estimated charge, the net loss is expected to be in the range of \$0.04 to \$0.07 per share.

Terayon will host a conference call today at 2 p.m. Pacific Time to further discuss its first quarter 2004 financial performance. A live audio webcast of the call will be available to the public from Terayon's website at [www.terayon.com](http://www.terayon.com). In addition, a replay of the conference call will be available via telephone beginning April 29 at approximately 4 p.m. Pacific Time, and will be available through the close of business on May 28, 2004. Participants can access the replay by dialing 888-843-8996 (U.S.) or 630-652-3044 (international). The access code for the replay is

8800319. A replay of the audio webcast will also be available online at [www.terayon.com](http://www.terayon.com).

#### ABOUT TERAYON

Terayon Communication Systems, Inc. provides access, delivery and management platforms for broadband providers, cable companies, satellite operators and broadcasters for the delivery of advanced, carrier-class voice, data and video services. Terayon, headquartered in Santa Clara, California, has sales and support offices worldwide, and is traded on the Nasdaq under the symbol TERN. Terayon can be found on the web at [www.terayon.com](http://www.terayon.com).

#### Press contacts:

John Giddings  
Terayon PR Manager  
(408) 486-5223  
[john.giddings@terayon.com](mailto:john.giddings@terayon.com)

Margaret Huang  
AtomicPR  
(415) 703-9454  
[margaret@atomiccpr.com](mailto:margaret@atomiccpr.com)

#### Investor contact:

Kristin Stokan  
Terayon Director, Finance  
(408) 486-5206  
[kristin.stokan@terayon.com](mailto:kristin.stokan@terayon.com)

# # #

#### "Safe Harbor" Statements under the Private Securities Litigation Reform Act of 1995:

Except for the historical information contained herein, this news release contains forward-looking statements, estimates and assumptions by Terayon that involve risks and uncertainties. These statements include the continued validation by cable operators of the advantages of Terayon's DOCSIS 2.0 and digital video solutions and the preliminary guidance on second quarter 2004 revenues, restructuring charge, net loss per share and expected operational savings as a result of restructuring activities. These forward-looking statements are based on current expectations and Terayon assumes no obligation to update this information. In addition, the events described in these forward-looking statements may not actually arise. Terayon's actual results could differ materially from those described in this press release, including Terayon's ability to gain new business; Terayon's ability to develop and bring to market new, technologically advanced products; the acceptance of Terayon's new products in the market; the expansion of operations by Terayon's customers; the deployment of Terayon's products in specific markets; Terayon's ability to lower and align its operating expenses with market conditions, and the continuation of improving trends in the cable industry, as well as the other risks detailed from time to time in Terayon's filings with the Securities and Exchange Commission. For more information about these and other potential factors that could affect Terayon's business and financial results, see the discussion of "Risk Factors" in Terayon's 10-K for the year ended December 31, 2003, available on the SEC's website at [www.sec.gov](http://www.sec.gov).

Note: Terayon and the Terayon logo are registered trademarks of Terayon Communication Systems, Inc. All other trademarks are property of their respective owners.

TERAYON COMMUNICATION SYSTEMS, INC.  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
Revenues	\$ 41,168	\$ 22,268
Cost of revenues	28,771	19,593
Gross profit	12,397	2,675
Operating expenses:		
Research and development	9,467	13,002
Sales and marketing	7,221	6,729
General and administrative	2,436	3,727
Restructuring costs and asset write-offs	3,367	3,162
Total operating expenses	22,491	26,620
Loss from operations	(10,094)	(23,945)
Interest income	452	902
Interest expense	(817)	(837)
Other income (expense)	279	(40)
Loss before income tax expense	(10,180)	(23,920)
Income tax expense	(67)	(69)
Net loss	\$(10,247)	\$(23,989)
Net loss per share, basic and diluted	\$ (0.14)	\$ (0.33)
Shares used in per share calculation, basic and diluted	75,516	73,710

TERAYON COMMUNICATION SYSTEMS, INC.  
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS)

	MARCH 31, 2004	DECEMBER 31, 2003
	----	----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 76,060	\$ 30,188
Short-term investments	47,151	108,452
Accounts receivable, net	29,041	29,799
Other receivables, net	2,351	3,662
Inventories, net	19,267	16,364
Prepaid expenses and other assets, net	2,272	2,883
Total current assets	176,142	191,348
Property and equipment, net	10,821	11,871
Restricted cash and other assets, net	11,609	12,021
Total assets	\$ 198,572	\$ 215,240
=====	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 21,362	\$ 26,049
Accrued payroll and other liabilities	26,832	29,356
Total current liabilities	48,194	55,405
Non-current liabilities	68,553	68,447
Stockholders' equity	81,825	91,388
Total liabilities and stockholders' equity	\$ 198,572	\$ 215,240
=====	=====	=====

# **EXHIBIT 47**

Table of Contents

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

-----  
FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: February 9, 2005  
(Date of earliest event reported)

TERAYON COMMUNICATION SYSTEMS, INC.

-----  
(Exact name of Registrant as specified in its charter)

Delaware 000-24647 77-0328533

(State or other jurisdiction(Commission (I.R.S. employer  
of incorporation) file number)identification no.)

4988 Great America Parkway, Santa Clara, CA 95054

-----  
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (408) 235-5500

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

-----  
Table of Contents

Item 2.02Results of Operations and Financial Condition	Page 3
Item 9.01Financial Statements and Exhibits	Page 7
Signatures	Page 8
EXHIBIT 99.1	
EXHIBIT 99.2	

## Table of Contents

### ITEM 2.02 Results of Operations and Financial Condition.

On February 9, 2005, Terayon Communication Systems, Inc. (the "Company") issued a press release announcing its financial results for the fourth quarter and fiscal year ended December 31, 2004. On the same date, the Company hosted a conference call to further discuss the financial results. A copy of the press release and a transcript of the earnings call are attached herewith as Exhibits 99.1 and 99.2, respectively, and are incorporated herein by reference. The information in this Current Report on Form 8-K, including the exhibits, is being furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liabilities of that section. The information in this Current Report on Form 8-K shall not be incorporated by reference into any registration statement or other document filed pursuant to the Securities Act of 1933, except as shall be expressly set forth by specific reference in such a filing.

In addition to the disclosure of financial results for the quarter and year ended December 31, 2004 in accordance with generally accepted accounting principles in the United States ("GAAP"), the press release and earnings call also disclosed non-GAAP financial measures of net losses and operating expenses that excluded certain severance, restructuring costs and asset write-offs associated with the Company's decision in November 2004 to cease investment in future development of its cable modem termination system ("CMTS") product line. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP.

In the earnings press release and on the earnings call, the Company disclosed that the non-GAAP financial measure of operating expense was \$15.4 million, and excluded severance costs, restructuring costs and asset write-offs in the aggregate amount of \$2.8 million, related to the cessation in investment of the CMTS product line. The directly comparable GAAP measure is operating expense, which the Company disclosed for the fourth quarter of 2004 was \$18.2 million.

On the earnings conference call, the Company disclosed that the non-GAAP financial measure of net loss for the same period was \$5.2 million or \$0.07 per share, and excluded severance costs, restructuring costs and asset write-offs in the aggregate amount of \$2.8 million, related to the cessation in investment of the CMTS product line. The directly comparable GAAP measure is net loss, which the Company disclosed for the fourth quarter of 2004 was \$7.9 million or \$0.10 per share.

On the earnings conference call, the Company disclosed that the operating expense for the first quarter of 2005 on a non-GAAP basis is anticipated to be in the range of \$14 to \$15 million if the restructuring charges in the range of \$0.5 to \$1.5 million are excluded. The directly comparable GAAP measure is operating expense that includes the restructuring charges, which the Company anticipates for the first quarter of 2005 to be in the range of \$14.5 to \$16.5 million.

The Company believes that the presentation of non-GAAP financial measures of operating expense and net loss in the earnings press release and on the earnings call is useful to investors in analyzing the results for the quarter ended December 31, 2004 because such

## Table of Contents

expenses are non-recurring in nature since these expenses primarily relate to the Company's decision to cease investment in the future development of its CMTS product line and may not be indicative of the Company's core operating results. As a result, the Company believes that the exclusion of these expenses items enables a more meaningful comparison of the Company's operating expenses and performance between reporting periods. In addition, the Company has historically reported similar non-GAAP financial measures to its investors and believes that the inclusion of comparative numbers provides consistency in the Company's financial reporting.

### FORWARD LOOKING STATEMENTS

The Company's earnings press release, dated February 9, 2004, contained, and the earnings conference call the Company hosted on the same date disclosed, forward looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. All statements included in the press release, other than statements that are purely historical are forward looking statements. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates" and similar expressions also identify forward looking statements.

The forward looking statements contained in the press release included the Company's guidance on first quarter 2005 revenue, net loss per share, estimated restructuring charges and estimated operating cost savings. Other forward looking statements included Jerry Chase's statements about the Company's decision to focus on the digital video network applications and endeavor to expand the reach and applicability of such applications by penetrating new markets, including broadcast and telco, and by building strong partnerships with leading video players. Additional forward looking statements include statements about the Company's expectation that its ongoing operating costs will be reduced, and the anticipated timing of completion of its restructuring activities. Other forward looking statements include Mark Richman's statements that the restructuring activities and increased focus on cost management in 2004 will greatly benefit the Company in its endeavor to achieve positive net income, as well as the Company's expectation that the focus on digital video networking applications may enable the Company to deliver profitable top line growth to achieve net income profits and positive cash flow.

The forward looking statements disclosed on the earnings conference call include, without limitation, statements regarding:

\*The Company's belief that its many recent changes implemented by the Chief Executive Officer and Chief Financial Officer will enable the Company to accentuate and build on its strengths, move out of underperforming product lines and put the Company on a track towards better financial performance;  
 \*The Company's belief that its 2004 performance has put the Company in a position towards sustainable profitability;  
 \*The Company's belief that it has a unique position and opportunity to be a part of the growing video market;

## Table of Contents

- \*The Company's belief that its decision to cease investment in the future development of the CMTS product line was an important step to put the Company in the best position to grow and enable the Company to focus its resources on the digital video and home access solutions;
- \*The Company's expectation that it will in the next several weeks announce its next generation cable modem based on DOCSIS 2.0 certified chip from another provider, as well as the introduction of new cutting edge video application;
- \*The expectation that the employee headcount would be below 200 after the transaction with ATI Technologies, Inc. closes, if it occurs;
- \*The Company's belief that to achieve profitability and positive cash flow it must continue to invest in digital video solutions to strengthen its market leadership and grow associated vertical markets such as satellites, broadcast and telecommunications; expand its distribution channel; expand across the telco vertical; and manage the home access business to re-establish profitability;
- \*The Company's belief that the revenue increase in the digital video business in the fourth quarter of 2004 will contribute to the Company's profitability if it maintains its gross margins for the digital video business in the area of 65 percent;
- \*The Company's expectation that operating expenses associated with digital video solutions will increase marginally as the Company increases its research and development efforts to maintain its leadership;
- \*The Company's expectation that it will be able to return the home access business to a growth opportunity;
- \*The Company's expectation that North America will become an increased opportunity for eMTA sales and that the certification from CableLabs for the eMTA product in North America will occur in the first quarter of 2005;
- \*The Company's expectation that the trend towards higher gross margin will continue as the higher revenue mix from digital video solutions revenues will increasingly benefit the aggregate gross margin percentage;
- \*The Company's expectation that the restructuring efforts will result in material reduction in ongoing operating losses, as well as greatly benefit the Company as it drives towards positive net income;
- \*The Company's expectation that there will be some additional severance expenditures in the first half of 2005 but no additional asset write-downs;
- \*The Company's expectation that it will increase staffing in selected areas, focusing on maximizing its digital video solutions opportunities;

## Table of Contents

\*The Company's guidance for the first quarter of 2005 with respect to expected revenue, net loss, diluted earnings (loss) per share, operating expenses, shares outstanding number and uses of cash;  
 \*The Company's expectation that revenue associated with digital video business will be flat to up sequentially in the upcoming fiscal periods;  
 \*The Company's expectation that operating expenses will not be in the range of \$13 to \$14 million until the third quarter of 2005;  
 \*The Company's expectation that it will get to net income profitability in the second half of 2005 and become cash flow positive soon thereafter;  
 \*The Company's expectation that it will continue to roll out equipment in regard to old digital simulcast network in the next few quarters of 2005 and that simulcast is going to be a big driver during the same timeframe;  
 \*The announcement that the Company is in the process of developing new technologies in regard to addressing new applications, namely advance Codex in the fourth quarter of 2004;  
 \*The Company's plans to do some live integration in the second quarter of 2005 with some of its major customers and start deployment in the timeframe of the fourth quarter of 2005, as well as the Company's expectation that set tops will be available by the second half of 2005; and  
 \*The Company's belief that the volume of eMTA sales will exceed the volume for sales of cable modems and hence the need for the Company to be in the eMTA business.

The forward-looking statements disclosed in the earnings press release and on the earnings conference call were made as of February 9, 2005, based on information available to the Company as of that date. The Company assumes no obligation to update any forward looking statements. In addition, the events described in the forward looking statements may not actually arise. The Company's actual results could differ materially from those described in the press release and on the conference call as a result of various factors, risks and uncertainties, including the Company's ability to develop and bring to market new products; the acceptance of the Company's new products in the market; the Company's ability to gain new business; the expansion of operations by the Company's customers; the deployment of the Company's products in specific markets; the continued revenue growth; the product mix that the Company sells each quarter which affects gross margins; the Company's ability to lower and align its operating expenses with market conditions; the convergence of industry developments and market dynamics contributing to the growth of the Company's digital video solutions business and the Company's ability to leverage these opportunities; the continuation of improving trends in the cable industry; transitional challenges as a result of the changes in senior management staff; the success of ceasing investment in the CMTS product line, including successfully

---

**Table of Contents**

implementing the reduction in work force, closing of certain facilities, managing the support needs of customers that have previously deployed the Company's CMTS products and anticipating the range of related costs; as well as the other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission. For more information about these and other potential factors that could affect the Company's business and financial results, see the discussion of "Risk Factors" in the Company's most recent 10-K and 10-Q filings, available on the SEC's website at [www.sec.gov](http://www.sec.gov)

ITEM 9.01 Financial Statements and Exhibits.

(c)Exhibits.

Exhibit 99.1Press Release of Terayon Communication Systems, Inc., dated February 9, 2005, announcing its earnings results for the fourth quarter and fiscal year ended December 31, 2004.

Exhibit 99.2Transcript of the earnings call of Terayon Communication Systems, Inc., that occurred after market on February 9, 2005, further discussing its earnings results for the fiscal year ended December 31, 2004.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Terayon Communication Systems, Inc.

By: /s/ Mark Richman  
Mark Richman  
Chief Financial Officer

Date: February 15, 2005

Table of Contents

Exhibit Index

Exhibit 99.1Press Release of Terayon Communication Systems, Inc., dated February 9, 2005, announcing its earnings results for the fourth quarter and fiscal year ended December 31, 2004.

Exhibit 99.2Transcript of the earnings call of Terayon Communication Systems, Inc., that occurred after market on February 9, 2005, further discussing its earnings results for the fiscal year ended December 31, 2004.

## Exhibit 99.1

Terayon Reports Fourth Quarter and Full Year 2004 Results  
Digital Video Revenue Grows 109% Year over Year  
Santa Clara, California - February 09 2005

Terayon Communication Systems, Inc. (Nasdaq: TERN), a leading provider of digital video applications and home access solutions, today reported financial results for the quarter and year ended December 31, 2004.

Revenue for the fourth quarter of 2004 was \$29.4 million, down 32% compared to \$43.0 million for the same quarter a year ago, and a 21% decrease compared to the \$37.2 million for the third quarter 2004. Revenue for the 12 months ended December 31, 2004 was \$150.5 million, a 12.7% increase compared to \$133.5 million for the 12 months ended December 31, 2003.

Net loss for the fourth quarter of 2004 was \$7.9 million, or \$0.10 per share, compared to a net loss of \$6.0 million, or \$0.08 per share, for the same quarter a year ago, and a net loss of \$13.5 million, or \$0.18 per share, for the third quarter of 2004. Net loss for the 12 months ended December 31, 2004 was \$36.5 million, or \$0.48 per share, compared to a net loss for the 12 months ended December 31, 2003 of \$50.4 million, or \$0.68 per share.

Digital video networking applications product line revenues were \$12.6 million in the fourth quarter of 2004, up 91% compared to \$6.6 million in the fourth quarter of 2003 and 17% compared to \$10.8 million in the third quarter of 2004. Revenues for the full year 2004 were \$37.0 million, up 109% compared to \$17.7 million in 2003.

The home access product line had revenues of \$13.7 million in the fourth quarter of 2004, compared to \$18.5 million in the fourth quarter of 2003 and \$19.8 million in the third quarter of 2004. The CMTS product line had revenues of \$3.1 million in the fourth quarter of 2004, compared to \$17.5 million in the fourth quarter of 2003 and \$6.6 million in the third quarter of 2004. As of December 31, 2004, Terayon had \$97.7 million in cash, cash equivalents and short-term investments, and \$65.1 million in convertible debt due in 2007.

"Our fourth quarter results reflect our decision to focus Terayon on our digital video network applications and home access solutions and to cease investment in future development of our CMTS products. The strong performance of our digital video products during the fourth quarter and 2004 clearly shows why we have moved video to the center of our corporate strategy," said Jerry Chase, Terayon's Chief Executive Officer. "We took big steps in 2004 to strengthen our leadership in digital video networking by working with customers to accelerate their evolution to all-digital networks, expanding the market applicability for our solutions, and launching new and innovative products and functionality. Those actions resulted in a strong financial performance in the fourth quarter and 2004 for digital video networking."

---

## 2004 Company Highlights

Terayon's 2004 business highlights include:

- \*Ground-breaking work with companies like Cox Communications and FOX Broadcasting Company to accelerate their transition to all-digital networks and the services that digital networks enable such as high definition television broadcasts, local targeted advertising and video-on-demand services
- \*Market leadership in new application areas such as digital ad insertion, logo insertion and analog/digital simulcast
- \*Entrance into a new market, broadcast, expanding the reach and applicability for Terayon digital video networking applications
- \*Expansion of Terayon's distribution channels via strategic value-added reseller partnerships with market leaders including Harmonic and Tandberg Television, offering more comprehensive integrated end-to-end solutions for cable, telecommunications, satellite and broadcast customers
- \*Launch of new digital video solutions including the BP 5100 platform, delivering standard definition/high definition multicasting and digital channel branding capabilities to broadcasters; the CP 7600 multi-channel edge decoder to accelerate the evolution to all-digital cable networks; and the Distributed Chassis(TM) solution, delivering truly distributed monitoring, management, networking and redundancy solutions for any digital video network
- \*Euro-DOSIS 2.0 certification for our cable modems, an essential requirement for the European and Asian markets, enabling high-speed Internet solutions and the delivery of data and voice solutions that require maximum bandwidth

"Through our video applications like digital ad insertion, logo insertion and IP video networking, we help customers such as Cox Communications accelerate their introduction of new methods of branding, advertising and product delivery," Chase said. "We have built strong partnerships with leading video players such as Harmonic and Tandberg, which have enabled us to extend our market reach. And we successfully began to expand our product applicability into new markets such as broadcasting as evidenced by our work with FOX Broadcasting Company. The move to all-digital networks changes how companies such as cable and satellite operators, broadcasters and telecommunications companies brand, entertain, communicate and inform, and Terayon helps that evolution happen faster."

## Restructuring Activities

During the fiscal year and fourth quarter of 2004, Terayon incurred severance, restructuring costs, and asset write-offs of \$11.1 million and \$2.8 million, respectively. The restructuring activities represented by these expenses are central to the company's repositioning, moving digital video solutions to the center of its strategic direction. During the fourth quarter, these expenses were primarily related to the company's decision to cease investment in future

---

development of its CMTS product line as announced in October 2004. As a result of the restructurings, ongoing operating costs are expected to be reduced. Operating expenses in the fourth quarter of 2004 excluding severance, restructuring costs, and asset write-offs were \$15.4 million compared to previous guidance of \$16 million to \$17 million. During the first half of 2005, Terayon expects to complete restructuring activities at which time ongoing quarterly operating expenses are anticipated to be in the range of \$13 million to \$14 million.

Personnel were reduced from 325 at the beginning of the fourth quarter to 255 at the end of the quarter due largely to reductions associated with on-going CMTS product development. Currently, company staffing totals 215.

"Our restructuring activities and increased focus on cost management in 2004 will greatly benefit the company as we drive operations to positive net income", said Mark Richman, Terayon's Chief Financial Officer. "By focusing our capital and human resources on our growth market--digital video networking applications--we expect to deliver profitable top line growth to achieve net income profits and positive cash flow generation."

#### Business Outlook

For the first quarter of 2005, Terayon expects to report revenues in the range of \$25 million to \$30 million and anticipates a net loss in the range of \$3 million to \$6 million. Earnings per share is estimated to be a loss in the range of \$0.04 to \$0.08. Cash usage during the first quarter of 2005 is estimated to be in the range of \$6 million to \$9 million. These numbers do not reflect the financial benefits anticipated from the announced sale of Terayon's silicon intellectual property to ATI.

Terayon will host a conference call today at 2 p.m. Pacific Time (5 p.m. Eastern Time) to further discuss its fourth quarter and full year 2004 financial performance. A live audio webcast of the call will be available to the public from Terayon's website at [www.terayon.com/investor](http://www.terayon.com/investor). A replay of the conference call will be available via webcast at [www.terayon.com/investor](http://www.terayon.com/investor) beginning at 4 p.m. Pacific Time today, through March 9, 2005. A telephone replay of the call will also be available beginning at approximately 4pm PST today through March 11, 2005 at the same web address or by calling (877) 213-9653 (U.S.) or (630) 652-3041 (International). The access code for the replay is 10742620.

#### About Terayon

As the world's leading provider of innovative digital video networking applications and home access solutions, Terayon Communication Systems, Inc. accelerates the evolution to the all-digital network. Now more than ever, service providers must adapt and evolve to not only cope with the market disruption brought on by new digital and IP based services such as HDTV, VoD, DVRs and VoIP, but also to capitalize on the opportunities these new services present. With over 5,000 digital video systems, hundreds of millions of seamless digital ad insertions and over five million cable modems and eMTAs shipped to date, Terayon delivers the critical technology

---

and solutions that accelerate its customers' ability to capitalize on the opportunities of the digital revolution. Recognizing the mission critical nature of digital video and data services, Terayon enables its customers to deliver picture perfect results where it matters most - on the screen and the bottom line.

Terayon, headquartered in Santa Clara, California, has sales and support offices worldwide, and is traded on the NASDAQ under the symbol TERN. Terayon can be found on the web at [www.terayon.com](http://www.terayon.com).

Investor Contact:

Eileen Morcos  
Investor relations  
(408) 235-5544  
[eileen.morcos@terayon.com](mailto:eileen.morcos@terayon.com)

Press Contact:

Rebecca West  
Atomic PR  
(415)402-0230  
[rebecca@atomicpr.com](mailto:rebecca@atomicpr.com)

# # #

"Safe Harbor" Statements under the Private Securities Litigation Reform Act of 1995: Except for the historical information contained herein, this news release contains forward-looking statements, estimates, and assumptions by Terayon that involve risks and uncertainties, including Terayon's guidance on first quarter 2005 revenues, net loss per share, estimated restructuring charge and estimated operating cost savings. These forward-looking statements are based on current expectations and Terayon assumes no obligation to update this information. In addition, the events described in these forward-looking statements may not actually arise. Terayon's actual results could differ materially from those described in this press release as a result of various factors, risks and uncertainties, including Terayon's ability to develop and bring to market new products; the acceptance of Terayon's new products in the market; Terayon's ability to gain new business; the expansion of operations by Terayon's customers; the deployment of Terayon's products in specific markets; the continued revenue growth; the product mix that Terayon sells each quarter which may affect gross margins; and Terayon's ability to lower and align its operating expenses with market conditions; as well as the other risks detailed from time to time in Terayon's filings with the Securities and Exchange Commission.

Note: Terayon and the Terayon logo are registered trademarks of Terayon Communication Systems, Inc. All other trademarks are property of their respective owners.

---

Terayon Communication Systems, Inc.  
 Unaudited Condensed Consolidated Statement of Operations  
 (In thousands, except per share amounts)

	Three months ending		
	31-Dec-04	30-Sep-04	31-Dec-03
Revenues	29,387	37,202	42,990
Cost of product revenues	19,558	30,932	30,272
Gross Profit	9,829	6,270	12,718
 Operating Expense:			
Research and development	7,279	8,696	10,042
Sales and marketing	5,292	6,222	7,040
General and administrative	2,835	2,993	2,617
Severance, restructuring costs and asset write-offs	2,750	1,463	--
Total operating expense	18,156	19,374	19,699
Loss from Operations	-8,327	-13,104	-6,981
Interest Income	545	525	523
Interest expense	-838	-812	-841
Other income (expense)	412	-46	1,387
Loss before Income tax expense	-8,208	-13,437	-5,912
Income tax (expense) benefit	305	-83	-103
Net Loss	-7,903	-13,520	-6,015
Net Loss per share, basic and diluted	-0.1	-0.18	-0.08
Shares used in per share calculation, basic and diluted	76,213	76,164	74,867
<hr/>			

Terayon Communication Systems, Inc.  
 Unaudited Condensed Consolidated Statement of Operations  
 (In thousands, except per share amounts)

	Twelve months ending	
	31-Dec-04	31-Dec-03
Revenues	\$ 150,538	\$ 133,485
Cost of product revenues	106,920	101,034
Gross Profit	43,618	32,451
 Operating Expense:		
Research and development	33,959	42,839
Sales and marketing	24,145	26,781
General and administrative	11,216	12,127
Severance, restructuring costs and asset write-offs	11,159	2,803
Total operating expense	80,479	84,550
Loss from Operations	-36,861	-52,099
Interest Income	1,982	2,917
Interest expense	-3,294	-3,279
Other income (expense)	1,566	2,424
Loss before Income tax expense	-36,607	-50,037
Income tax (expense) benefit	76	-316
Net Loss	(\$36,531)	(\$50,353)
Net Loss per share, basic and diluted	-0.48	-0.68
Shares used in per share calculation, basic and diluted	75,861	74,212

Terayon Communication Systems, Inc.  
 Unaudited Condensed Consolidated Balance Sheet  
 (In thousands)

31-Dec-04 31-Dec-03

**ASSETS**

**Current assets:**

Cash and cash equivalents	\$ 43,218	\$ 30,188
Short-term investments	54,517	108,452
Accounts receivable, net	19,660	29,799
Other receivables, net	1,044	3,662
inventories, net	17,144	16,364
Prepaid expenses and other assets	2,042	2,883
 Total current assets	 \$ 137,625	\$ 191,348

Property and equipment, net	5,759	11,871
Restricted cash and other assets, net	10,350	12,021
Total assets	\$ 153,734	\$ 215,240

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**Current liabilities:**

Account payable	\$ 7,846	\$ 26,049
Accrued payroll and other liabilities	21,499	29,356
 Total current liabilities	 29,345	55,405

Non-current liabilities	68,048	68,447
Stockholders' equity	56,341	91,388

Total liabilities and stockholders' equity \$ 153,734 \$ 215,240

Exhibit 99.2

Terayon Communication Systems, Inc.  
Conference Call Relating to Financial Results for the  
Fourth Quarter and Year Ended December 31, 2004  
February 9, 2005, 2 p.m. (PST)

Corporate Participant:

Mark Richman - Terayon Communication Systems - CFO  
Jerry Chase - Terayon Communication Systems - CEO  
Fabrice Quinard - Terayon Communication Systems - Vice President, Terayon  
Digital Video Solutions

Conference Call Participants:

Anton Wahlman - Analyst  
Rich (ph) - Analyst  
Chet White - Analyst  
Alan Bezoza - Analyst

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to Terayon's Fourth Quarter and Full 2004 Earnings Conference Call. At this time all participants are in a listen-only mode. Later we will conduct a question and answer session. Please note this conference is being recorded. I would now like to turn the call over to Mr. Mark Richman, Chief Financial Officer of Terayon Communications Systems. Mr. Richman, you may begin.

Mark Richman - Terayon Communication Systems - CFO

Thank you. Good afternoon, and welcome again to the Terayon Communications Systems fourth quarter and fiscal year 2004 conference call. I am Mark Richman, CFO, and I'm very pleased to be here today. With me is Jerry Chase, our Chief Financial -- Executive Officer.

Before I turn the call over to Jerry for an overview, I would like to remind our listeners statements made during our discussion here today regarding future performance reflects our perspective as of today. All statements we make, other than statement of historical fact, are forward looking. These include without limitation statements regarding our future financial performance. We wish to caution you that such statements are projections, and that actual results may differ materially from these projections because our operations follow a number of variables, uncertainties and risks including Terayon's ability to grow revenues, better address customer needs, reduce its product and operating costs, gain new business, and develop and offer new products. Additional risks facing Terayon are detailed in our filings with the SEC including the most recently filed Forms 10-K and 10-Q. We assume no obligation to update any forward-looking information provided here today.

---

Now with that said, I'd like to turn the call over to Jerry, our CEO, for an overview of our business.

Jerry Chase - Terayon Communication Systems -- CEO

Hello, everyone, and thank you for joins us for the Terayon Q4 and full 2004 earnings conference call. I've now been with Terayon for about five months, and Mark, our CFO, has been here a little over two months. During that short period we have begun to make many changes that will enable us to accentuate and build on our strengths, move out of product lines in which we are underperforming and put the company on a track towards better financial performance.

I've shared with many people why I came to Terayon. I believe it had a unique position and opportunity to be a part of the growing video market, and my belief is stronger today than ever. We believe that the proliferation of video applications will correlate closely to how consumers and businesses have adopted mobile phones. These video applications will be delivered across any network to any device at any time, instant access.

During my call last October, we discussed the product evaluation criteria we are using to evaluate sustainable, profitable corporate growth. They are: we must be the market leader or a very strong influential player in the markets in which we compete. Our customer base must be diversified buying now and have an ongoing plan to buy from us, and also we must have the cost structure to grow earnings faster than sales. Our 2004 performance and several Q4 actions have put Terayon in a stronger position on these three criteria and position us well for the path of sustainable profitability.

Now I'd like to briefly recap 2004 and Q4 specifically.

Without a doubt the biggest change in Q4 was our decision to cease future development of CMTS product line and focus the company on the product lines in which we have a demonstrated leadership, digital video networking applications and home access solutions such as cable modems and the NTA. This decision was an important step to put the company in the best position to grow. We are now able to focus our resources on the businesses in which we have strength, digital video and home access solutions.

In video I'm pleased to report our digital video solutions product line had its third consecutive quarter of record revenue as we continued to solidify our reputation as both the technology and market leader with our innovative video solutions. The strong performance of our digital video products during Q4, and in fact all of 2004, clearly shows why we have moved video to the center of our corporate strategy. We took big steps to strengthen our market leadership and expand the applicability for our solutions into new types of video systems and markets. We set out to improve our relationship with customers, expand our distributor channel to put Terayon products into more systems and markets and extend our video applications family with new models and new functionality. We did all three.

In addition to our traditional dominant position in rate shaping and grooming, we now lead in applications areas such as digital ad insertion, logo insertion and analog digital simulcast. We helped customers like Cox Communications, for example, to create ground breaking

---

opportunities for their advertisers to target local audiences through high definition programming, making Cox the first cable operator to insert local digital advertising into HD programming. We strengthened and expanded our distributor channel by working with companies like Harmonic, Thompson and Tanburg because of their ability to integrate Terayon's digital video applications into larger video and television delivery systems, for not only cable operators, but also satellite, broadcast and telcos. Through our distributor channel we have expanded the types of systems in which Terayon digital video applications are integrated, broadened our global market reach and increased the types of markets in which our solutions appear.

For example, our work with Thompson on Fox Broadcasting enabled Fox to integrate high quality, high definition, programming at affiliates across the country while at the same time allowing localized onscreen branding. In fact if you watched the Superbowl in high def you watched it with programming that was delivered via Terayon digital video products.

Also in 2004 we introduced new products, applications and functionalities to enable our customers to move to all digital networks. Through new products like the BP 5100 for the broadcast market we helped our customers accelerate their evolution to the new business opportunities made possible through all digital networks, including video on demand, high def, and localized advertising. Being able to deliver multiple video applications from an integrated platform has contributed to our impressive revenue growth and allow us to maintain very attractive margins and operating financial models. Our digital video solutions product line readily satisfies the three evaluation criteria I outlined a moment ago.

Now let's turn our attention to Home Access Solutions.

Q4 gross revenues for those products dropped from Q3 2004, but this is a profitable business for us. By emphasizing profit, managing costs and enhancing the products with new data, voice, and home networking functionality, Home Access Solutions will continue to be an important business for us.

Receiving Euro-DOCSIS 2.0 approval strengthens our ability to sell, not only in Europe, but also in selected Asian markets, most notably China. Terayon can deliver DOCSIS 2.0 cable modems around the world. Our customers can deliver high-speed broadband services that require maximum bandwidth. The surge of consumer interest in Voice Over IP, VOIP, has resulted in a rising importance in voice home access products.

As an example, [indiscernible] recently selected us a primary eMTA source for their major rollout of residential VOIP service. Increased orders for eMTAs has improved our Q4 average selling price for home access products over Q3, as they represent a larger percent of sales.

Our innovation continues with the recent launch of our wireless home networking module, the WX-54 G that enables cable operators to simply and cost effectively deploy high speed data and wireless home networking packages. During 2004 we also examined our long-standing product strategy of vertical integration, in other words, producing the chips on which our cable modems operate. As you can see from our announcement yesterday, we decided to sell our silicon intellectual property for cable modems to ATI Technologies.

---

Let me stress this does not alter our presence in home access. It enables us to focus on product innovation, rather than designing and building cable modem chips, and frees resources to expand our digital video networking solutions. In the next several weeks we will also announce our next generation cable modem based on a cable as DOCSIS 2.0 certified chip from another provider.

Our objectives in home access are to re-establish profitable growth and maintain cash contributions through continued innovation and managed costs. Our ranking for the past years is one of the top suppliers worldwide validates our market position. Looking back again at the three evaluation criteria I outlined at the beginning of this call, our home access product line, meets the standard.

Now let's turn our attention to our CMTS product line.

We face some difficult decisions in 2004 regarding CMTS. We believe that being first to market with an end-to-end DOCSIS 2.0 solution would give our CMTS a decided market advantage with cable operators, sought to increase their upstream bandwidth capabilities, but that advantage never materialized. We looked at a market that had heavily entrenched competitors with greater resources than our own and a customer base that was not growing, and made the responsible decision to cease investment in further development of the CMTS product line. While we knew there would be bumps in the road, it was clear what we needed to do.

Regarding personnel, we began the fourth quarter of 2004 with 325 employees, and ended the quarter at 255 largely due to reductions associated with the ongoing CMTS product development. That number is 215 today, and we expect to be below 200 when the ATI deal closes.

As we look to 2005, Terayon will remain focused on driving to sustainable profits and positive cash flow. To do this we will continue to invest in digit video to strengthen our current market leadership division and grow off associated vertical markets like satellites, broadcast, telecommunications, and other verticals that could involve, for example, IP video as we continue to investigate those. We will be expanding our strong distribution channel to integrate our video solutions into new types of video systems and markets and will be managing our home access business to re-establish profitable growth and continue cash contributions.

These objectives give us a healthy platform for growth and will improve our financial performance. They deliver on more diversified global customer base, and product lines where we have well constructed cost management. The revitalized Terayon will follow those three objectives to thrive and prosper.

Look for us to introduce a new, cutting edge video application in the coming weeks that we're very excited about. It will enable our cable customers to even more affordably speed their evolution to all digital services over their current network. In addition we expect to have some important news regarding our channel partnerships in the coming months.

Now I will turn it back over to Mark who will review the financial results for the quarter and year in greater detail.

---

Mark Richman - Terayon Communication Systems -- CFO

Thank you, Jerry. I am very pleased to announce we've met or exceeded all previously announced guidance, as it relates to our P&L performance objectives. Starting with our top line, today we report a net revenues of 29.4 million for the fourth quarter, a 32 percent decrease from the 43 million recorded in the fourth quarter 2003 and down 21 percent sequentially from 37.2 million reported in third quarter 2004. However for the full year of 2004 we reported 150.5 million in revenues, a 12.7 percent increase compared to 133.5 million for the 12 months ended December 2003.

The quarter over quarter decline in revenues is primarily attributable to a reduction in revenue from legacy product lines, including CMTS equipment sales. Legacy product revenues declined to 3 million of the fourth quarter of 2004, down from 20.5 million in the fourth quarter of 2003 and compared to 7.6 million in the third quarter of 2004.

Looking at our ongoing product lines, digital video networking applications, which as Jerry discussed is the key driver of our revenue growth opportunity, recorded 12.6 million in net revenues in the fourth quarter 2004, a 91 percent increase from 6.6 million recorded in the fourth quarter of 2003, and up 17 percent sequentially from 10.8 million in the third quarter of 2004. This revenue growth will contribute to profitability as we are currently able to maintain gross margins in the area of 65 percent. Operating expenses associated with digital video solutions will increase marginally as we look to increase our R&D efforts to maintain our technology leadership.

Our home access solutions business posted net revenues of 13.7 million in the fourth quarter 2004 compared to 7.5 million a year ago and 19.8 million in Q3 of 2004. We do believe that sales of home access solutions, primarily cable and modem sales was negatively impacted by our decision to cease investment in CMTS products. However going forward we anticipate our ability to return this product line to a growth opportunity.

Additionally we have taken strong steps to reduce the cost structure associated with home access revenue. This is evidenced by the announced sale of our intellectual property associated with the cable modem technology to ATI.

We are no longer in the business of chip development for cable modems and next generation eMTA products, however let me again make this clear that we have not exited the home access business and will continue to sell consumer equipment. In fact, we are generating additional traction from eMTA sales and in the fourth quarter shipped 37,000 eMTA units compared to 20,000 units shipped in the third quarter 2004. North America will become an increased opportunity for eMTA sales, as all units ship to outside of North America. We are pending certification from cable labs for eMTA product in North America that we expect to obtain this current quarter.

With a somewhat higher mix of eMTA products averaging sale price for our modems in eMTA actually increased by a percent in the fourth quarter as compared to a 4 percent decrease in the third quarter of 2004. We believe the financial results of home access solutions is

---

evidence of our strategy to maximize the business for profit and cash by preserving gross margins and reducing the cost structure.

Our consolidated gross margins in Q4 2004 was 9.8 million or 33 percent of sales compared to 6.2 million or 17 percent of sales in Q3 2003 and 12.8 million or 30 percent in the fourth quarter 2003. Gross margins for the year was 29 percent compared to 24 percent for the 12 months ends December 2003.

Cost of product includes excess and obsolete inventory charges of 7.3 million and 3.2 million for the third and fourth quarters of 2005 respectively. These charges relate primarily to our decision to cease investment in CMTS business. Excluding these charges, the gross margin was 13 million or 44 percent of revenues in the fourth quarter compared to 13.6 million or 37 percent of revenues in 3rd quarter of 2004. The higher gross margin percent reflects the increased revenue mix coming from digital video solutions. We expect this trend to continue as the higher revenue mix from digital video solutions revenues will increasingly benefit the gross margin percentage.

Operating expenses for the fourth quarter was 18.2 million. Excluding 2.8 million for severance, restructuring costs and asset writeoffs, operating expenses were 15.4 million compared to our previously announced guidance of 16 to 17 million and is down 4.3 million from the fourth quarter of 2003 and down 2.5 million sequentially from the third quarter of 2004.

I would like to add some color to our restructuring activities. Again, during the fiscal year in fourth quarter 2004 Terayon incurred severance, restructuring costs, and the asset write-off of 11.1 million and 2.8 million respectively. The restructuring activities represented by these expenses are essential to the company's repositioning, moving digital video solutions to the center of it's strategic direction.

During the fourth quarter these expenses were primarily related to the company's decision to cease investment in its CMTS product line as announced in October of 2004. As a result of the restructuring, ongoing operating losses are expected to materially reduce. By the end of the first half of 2005, we expect to have completed restructuring activities, at which time ongoing quarterly operating expenses are anticipated to be in the range of 13 to 14 million comparing favorably to 20 million as soon as Q4 of 2003. While we anticipate some additional severance expenditures in the first half of 2005, we do not anticipate any additional asset writedowns. As Jerry indicated, we have reduced head count from 325 at the end of Q3 2003 and ended Q4 of 255 with additional reductions we anticipate head count to be below 200 at the end of Q1 2005 however we will increase staffing in selected areas, focusing on maximizing our digital video solutions opportunities. These restructuring activities and increased focus on cost management in 2004, will greatly benefit the company as we drive operations to positive net income.

Including severance and separation charges, net loss for the fourth quarter was 7.9 million or \$.10 per share as compared to a net loss of 6 million or \$.08 per share in the fourth quarter of 2003 and a net loss of 13.5 million or \$.18 per share in the third quarter of 2004. Excluding these charges, net loss for the quarter was 5.2 million or \$.07 per share. Net loss for

---

the year was 36.5 million or \$.48 per share compared to a loss of 50.4 million or \$.68 per share in the 12 months ended December 31, 2003.

Going forward we recognize the net to better manage our cash resources and ended the fourth quarter with a cash balance of 97.7 million compared to 112 million in the third quarter of 2004. To better manage cash, we need to focus on managing working capital resources. Our day sales outstanding, DSO, at the end of Q4 2004 was 62 days versus 50 days at the end of Q3. Inventories turns have been the key force, slowed to five times compared to eight times at the end of Q3. Our inventory balances at the end of Q4 2004 were a bit inflated due to the reduced cable modem sales that we have discussed. To improve these working capital metrics, we clearly see this as both an area of challenge and opportunity.

The cash burn for the fourth quarter was 14.1 million, in excess of our guidance of 9 to 11 million. This excess cash burned can be largely attributable to a poor timing of cash distributions. This is evidenced by balances of accounts payable and other crude liabilities that declined 6.5 million in Q4 coupled by an increase in net inventory levels of 1.6 million.

I would like to offer the following guidance for the first quarter of 2005 based on the best information we have today. We expect revenues in the range of 25 to 30 million, our net loss to be in the range of 3 to 6 million or \$.04 to \$.08 per share based on an average outstanding of approximately 77 million shares. Total operating expense in the range of 14 to 15 million, excluding restructuring charges, and the uses of cash and cash equivalents to be between 6 and 9 million.

I would like to thank you for listening and with that I will turn the call back to Jerry.

Jerry Chase - Terayon Communication Systems -- CEO

Thank you, Mark. I'm optimistic about Terayon's ability to focus and deliver favorably against our strategy and business model. It's a great time to be involved in digital video and it truly will change how we communicate, entertain and stay informed. Mark and I look forward to providing you with updates on our progress as we transition Terayon to a digital video networking company.

On that note, we'd like to open the call to questions. Today I have with me Fabrice Quinard, Head of our Digital Video Networking Products and Mark, Fabrice, and I are here to answer any questions you may have. Operator, I'm turning the call over to you.

#### QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question and answer session. [CALLER INSTRUCTIONS] We have a question from Anton Wahlman. Please state your question.

Anton Wahlman - Analyst

Jerry, Mark, and Fabrice, can you hear me?

-----

Jerry Chase - Terayon Communication Systems - CEO

Yes, have you loud and clear. How's Atlanta?

Anton Wahlman - Analyst

Rainy and ugly. A few things here. Now, of your guidance of 25 to 30 million, are you prepared to say whether the digital video piece is going to be any specific portion of that, or is that going to be up sequentially or not up sequentially?

Jerry Chase - Terayon Communication Systems - CEO

We do expect it to be flat to up sequentially. We haven't provided the specific guidance, but included in that number is an uptick on the video revenue

Anton Wahlman - Analyst

Am I correct it's flat to up?

Jerry Chase - Terayon Communication Systems - CEO

That's correct.

Anton Wahlman - Analyst

You probably said this. How many total CPE - how many total modems? You said 37 whatever thousand eMTA versions thereof, but but how many was the total count?

Jerry Chase - Terayon Communication Systems - CEO

We have 301,000 cable modems and 37,000 eMTAs.

Anton Wahlman - Analyst

You said about Op Ex. At some point you talked about 13 to 14 million Op Ex and then on the guidance I thought you said 14 to 15. Was the 14 and 15 for Q1 and 13 to 14 the longer range?

Mark Richman - Terayon Communication Systems - CFO

That is correct. The guidance for the next quarter is the 14 to 15 million.

Anton Wahlman - Analyst

And then if you look at Q2 is more like 13 to 14?

-----

Mark Richman - Terayon Communication Systems - CFO

Once we complete our restructuring we still will have some, for example, CMTS engineers through second quarter, but we still will have opportunities to get from the head count down associated with CMTS, at which time -- so this is more of a Q3 event to get to the 13 to 14 million range.

Anton Wahlman - Analyst

Okay. Now, on the cash balance sheet situation, you know, that's been a long time ago since anything was done about the convert. Nothing is about to happen there anyway, but if you could comment on -- I mean your cash has been declining here rather rapidly. If you look at net cash, it's now below 40 million or something like that, and any thoughts as to if and when you would need to do something about the balance sheet?

Mark Richman - Terayon Communication Systems - CFO

At this point, no. The bonds don't mature for another two and a half years in August of 2007, so the maturity is way out. Secondly, we have provided guidance we anticipate to get to net income profitability in the second half of year. Cash flow being positive -- free cash flow positive should be on the heels on net income profitability because our Cap Ex expenditures as a company are fairly minimal, and if we manage the balance sheet correctly, unlike, unfortunately, what we did in Q4, then we will be in a position to actually become cash flow positive soon thereafter.

Anton Wahlman - Analyst

Okay. Now final question. On the sort of new applications for the digital video line, not the legacy -- let's call them that, CherryPicker applications, but the new type of applications, digital advertising and branding and that sort of thing, will the revenue to date been based on the two major contracts you have announced, the Fox and Cox Communications, or are there other major customers that composed a meaningful portion of that \$12.6 million this quarter?

Fabrice Quinard - Terayon Communication Systems - Vice President, Terayon Digital Video Solutions

Absolutely. I think a good chunk of this revenue this fourth quarter comes from actually in the cable space. We started rolling out some equipment in regard to the old digital simulcast network and we anticipate this to continue over the next couple of quarters.

Anton Wahlman - Analyst

In this last quarter you said something about in the cable space, I couldn't quite hear what you said, there. Obviously simulcast was one of them, but anything else?

---

Fabrice Quinard - Terayon Communication Systems - Vice President, Terayon Digital Video Solutions

Simulcast actually includes a bunch of things, it includes digital of the channels into MPEG and the insertion of all these channels and as well as decoding back to an analog switch. It's a complete line of products that needs to be deployed in order to address the simulcast aspect as well as the ad insertion aspect.

Anton Wahlman - Analyst

Would you say that is as large as or even larger driver at the moment for at least the quarter that just ended than compared to the major Fox deployment and the advertising application that Cox communications did?

Fabrice Quinard - Terayon Communication Systems - Vice President, Terayon Digital Video Solutions

You know, it's a combination of both. I would say for the next two quarters, most likely simulcast is going to be a big driver.

Anton Wahlman - Analyst

All right. That's very helpful. Thank you.

Jerry Chase - Terayon Communication Systems - CEO

Thank you, Anton.

Operator

Our next question is from George Notter. Please state your question.

Rich - Analyst

Hey, guys. This is actually Rich and [indiscernible] on behalf of George. Two questions for you. One the outlook for digital video products in the telcos, could you give us a sense of where you are on dialogue with those customers right now and when we see some traction for that market? My second question is kind of the outlook on the cable modem business. Under what circumstances would you consider getting out of that business and focusing solely on digital video? Thank you.

Fabrice Quinard - Terayon Communication Systems - Vice President, Terayon Digital Video Solutions

I can actually answer the first question. Fabrice Quinard here. We are working very closely with telco underwriters and we are in the process of developing new technologies in regard to addressing these new applications, namely advance Codex in Q4. What is happening in the cable space is anticipated to be happening in the telco space, using slightly different

---

technologies like ABC and Windows Media line. We're obviously scaling our technology in order to be able to address these technological challenges. We will see beginning of activities by the second half of next year in regard to telco.

Jerry Chase - Terayon Communication Systems - CEO

This is Jerry. Picking up on the second part of your question regarding modems, I think you guys can see we've taken some pretty assertive actions in the last months, and what we like about the modem business is it's profitable, it's cash flow positive and to be a little bit slang here, it's not broken. Also, even though we stopped investment on the CMTS product line, we still have a lot of very valuable intellectual property and probably for now going forward in the future the only way to get IC high speed video across the hybrid fiber coax network is on a CMTS network. So we're taking the time to ask ourselves questions to make sure of what we're doing, but the company is focused on profitability, it's focused on performance, and we're looking for ways to tie ourselves together and we're being very pragmatic and very practical as we go into the future.

Rich - Analyst

Okay. Thank you.

Operator

Our next question is from Chet White. Please state your question.

Chet White - Analyst

Hi. Thank you very much. I was hoping I could get more color on some of the new video products. You mentioned in the coming weeks you have some products coming up. Was that basically centered around the IP video product you just described, or is there more beyond that for the various satellite and broadcast markets?

Fabrice Quinard - Terayon Communication Systems - Vice President, Terayon Digital Video Solutions

Absolutely. You're right on target. These products are centered on IP video delivery mostly for cable applications.

Chet White - Analyst

I see. And is it breaking away from the current technology or just extending some feature sets?

-----

Fabrice Quinard - Terayon Communication Systems -- Vice President, Terayon Digital Video Solutions

It's actually both. It's extending from future sites and providing some new major features that will enable the cable providers to provide end-to-end digital distribution of their content to the edge including ad insertion.

Chet White - Analyst

Okay. And then new channel partners, is that down the same vein of adding say for example, the Thompson and Hamburg and Harmonics of the world, just basically adding similar types of partners? Or is there a new dimension to that?

Jerry Chase - Terayon Communication Systems - CEO

Our philosophy on partnering is, a lot of companies in our space, including ourselves, have struggled with profitability, and our strategy is to do what we do well, expand in -- in our section and work with viable channel partners that allow us to deploy solutions that cross geographic boarders, that allow us to take our solution across the various verticals. What you can expect to see in the future is deepening those relationships and also looking to expand across the telco vertical.

Chet White - Analyst

Have you seen the RFP activity in the telco vertical? It seems some other guys in the industry have seen a strong uptick.

Fabrice Quinard - Terayon Communication Systems - Vice President, Terayon Digital Video Solutions

We have been participating in different RFPs. I cannot disclose any name at this point.

Chet White - Analyst

Can you give us a scale to show some pace?

Fabrice Quinard - Terayon Communication Systems - Vice President, Terayon Digital Video Solutions

Well, we actually are on plan to do so some live integration in Q2 with some of our major customers and we're hoping to start deployment in the Q4 timeframe.

Chet White - Analyst

So the second half of the year should be pretty good?

---

Fabrice Quinard - Terayon Communication Systems - Vice President, Terayon Digital Video Solutions

Basically what is holding all these deployment is the broad availability of set top boxes for subscribers supporting the advanced codex X-264 as well as the CV 1.

Chet White - Analyst

I see. You expect those this spring?

Fabrice Quinard - Terayon Communication Systems - Vice President, Terayon Digital Video Solutions

These set tops will be available by the second half of this year.

Chet White - Analyst

Great. Last question on the eMTA side. With the approval coming out for North America, would you expect them to have a strong uptick in Q2 or Q1?

Mark Richman - Terayon Communication Systems - CFO

Certification will happen in the first quarter. We're not going to have general availability until probably the middle of Q2, so any kind of real uptick probably won't happen until the Q3 time frame.

Chet White - Analyst

Okay. Can you rough in the commitment that you still will maintain even after you've let go of the chip team for the support of the home networking operation?

Mark Richman - Terayon Communication Systems - CFO

Yeah. The cost structure really is going to be minimized. It's outsource manufacturing of course, and with outsourcing of some of the development we're going to be doing, it's really a group dedicated to the home access business of less than 10, so it really -- we really have been able to reduce the cost structure is one of the reasons why we maintained by being able to generate the revenue and turning the inventory that it's a profitable line of business for us.

Chet White - Analyst

I see. Basically under 10 and that would be mainly in an R&D line?

Mark Richman - Terayon Communication Systems - CFO

It's what managing the product road map and somewhat managing the partners that we have on the new models, and somewhat managing the channel distribution that we have, but it really is a fairly small group dedicated specifically to managing the cable modem business.

---

That's one of the reasons we don't have a lot of overlap between our product lines as well because the group is pretty small on the home access line.

Jerry Chase - Terayon Communication Systems - CEO

Chet, this is Jerry. Just to sort of telegraph where our interests lie there, we came out and announced recently the wireless module, the WX-54G, which is probably not the most sexy name you've ever heard, but nonetheless, we think we have a jump on the market there. We have a lot of interest. That's where you see us focusing, working with our OEM partners to continue to innovate, and we really weren't in a good position to innovate in a vertically integrated environment on the silicon.

Chet White - Analyst

Thank you very much. Congrats on the great video quarter.

Jerry Chase - Terayon Communication Systems - CEO

Thanks, Chet. Talk to you soon.

Operator

Our next question is from Alan Bezoza.

Alan Bezoza - Analyst

I agree with you, Jerry, we need better names in this industry and stop letting engineers name these products.

Jerry Chase - Terayon Communication Systems - CEO

Never let engineers decorate.

Alan Bezoza - Analyst

A couple questions. First, on the digital video front, how much of the sales came from channel partners and how would you characterize margins whether you sell the products or somebody else sells the product?

Mark Richman - Terayon Communication Systems - CFO

The direct, it's about -- today about roughly 50/50 in terms on the video side between partners and direct. Comcast is obviously is our biggest direct customer, and we do sell a lot to Comcast, but the margin -- the difference in margins between the wholesale and the retail model is that the differential is pretty small. It's less than 10 percent, so we really -- it's more of a pass through for our partners at this point, so we are able to capture the bulk of all the margin that goes to the end user today.

---

Alan Bezoza - Analyst

That's great. Thanks. Also on the sale of the chips to ATI. Did you secure any long-term pricing agreements with them? How do you look at -- you said you're introducing a second supplier and how that changes.

Jerry Chase - Terayon Communication Systems - CEO

The way that is structured right now is we have full and unfettered access to any pretty improved. We can continue to buy the chip forever, so we're in a really good spot on there. We have no limitations on -- actually, we have the opportunity to benefit from increased volume, so we feel like we're in a good spot there.

Alan Bezoza - Analyst

On customer concentration, were there any -- I assume Fox is a 10 percent. Are there any other 10 percent customers you had in the quarter?

Mark Richman - Terayon Communication Systems - CFO

It was Comcast and Harmonic.

Alan Bezoza - Analyst

Lastly on the eMTAs, how many customers do you currently have on the eMTA side, or maybe you want to sell in all the cable modems as a total subscriber, that make up the bulk the sales and how would you [INAUDIBLE] pricing on the eMTAs. Has there been any erosion now we have more traction here.

Mark Richman - Terayon Communication Systems - CFO

I didn't have all that question. What I do remember is the amount of customers we have on the eMTA side it's a small handful. It's only in the area of five, and we have some pretty big distributors in the Far East, for example, that we use. The ASP model has actually so far been fairly stable for you, the pricing model. Again, it's going to be more than 2 X what we go in in the cable modem business. It is a way to improve our revenue and improve our margin contribution as we increase the mix. Did you have another question in there Alan?

Alan Bezoza - Analyst

On top of that are the margins better on the eMTAs than on the modem side?

Mark Richman - Terayon Communication Systems - CFO

Yes, they are better. You get a bigger ASP and a bigger margin contribution percentage wise.

---

Alan Bezoza - Analyst

What are the battery lives like? Are people taking the batteries, right now, for your customers, or are they opting without the battery backup?

Mark Richman - Terayon Communication Systems - CFO

For us, they have a battery backup. It's a quarter percent that want the battery backup, and then we have a product road map that's going to put an integrated battery eMTA product out there probably in the Q3 time frame. So that's where the industry is going anyway. They will all have battery backups at some point, especially when voice is integrated in the eMTA because you have to have a battery backup for that.

Alan Bezoza - Analyst

As some of the operators start deploying eMTAs, I know you had some erosion with Adelphia on the modem side, but as far as customers taking eMTAs obviously embedded with the cable modem, do you see any erosion to cable modem sales going forward as they potentially take the modems back in inventory and replace them somewhere else?

Mark Richman - Terayon Communication Systems - CFO

We don't see erosion as much as that we know that the volumes of the eMTA are at some point cross over the volumes of cable modems. That's where the product is moving. How quickly that happens is dependent on multiple factors, but clearly we need to be in the eMTA business. And your generic cable modem will decline over time. How quickly that happens is open to variables.

Alan Bezoza - Analyst

Great. I appreciate it. Thank you.

Jerry Chase - Terayon Communication Systems - CEO

All right, Alan. Thanks a lot.

Operator

We have no further questions at this time.

Jerry Chase - Terayon Communication Systems - CEO

Okay. Thank you everyone. This is Jerry, and just wanted to say thank you everyone for joining us. We appreciate it, and we look forward to communicating where we are at we go forward.

Operator

This concludes our conference for today. You may all disconnect at this time. Thank you for your participation.

(c)2005 Thomson Financial. Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Thomson Financial.

#### DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

(c)2005, Thomson Financial. All Rights Reserved.

# **EXHIBIT 48**

**Q1 2005 Terayon Communication Systems Earnings Conference Call - Final**

8,921 words

3 May 2005

FD (FAIR DISCLOSURE) WIRE

English

© Voxant Inc. All rights reserved.

**OPERATOR:** Thank you very much, ladies and gentlemen, for your patience, Good day [ads] quarter 2005 **Terayon** Communication Systems earnings conference call. My name is Bill and I'll be your conference coordinator for today. At this time, all participants in a listen-only mode. However, we will be facilitating a question-and-answer session towards the end of today's conference.

[OPERATOR INSTRUCTIONS]

As a reminder, today's conference is being recorded for replay purposes. I would now like to turn the conference over to your host for today's presentation, Mr. Mark Richman, Chief Financial Officer. Please proceed, sir.

**MARK RICHMAN, CFO, TERAYON COMMUNICATION SYSTEMS:** Good afternoon, and welcome, again, to **Terayon** Communication Systems first quarter 2005 conference call. I am Mark Richman, CFO, and I'm pleased to be here today with Jerry Chase, our Chief Executive Officer. Before I turn the call over to Jerry for an overview of the quarter, I would like to remind our listeners that statements made during our discussion here today regarding the future performance reflects our perspectives as of today. All statements we make, other than statements of historical fact, are forward-looking statements. These include, without limitation, statements regarding our future financial performance.

We wish to caution you that such statements are projections and that actual results may differ materially from the projections because our operations involve a number of variables. Uncertainties and risks, including **Terayon's** ability to grow revenues, better address customer needs, reduce its product and operating cost, gain new business and develop and offer new products. Additional risks facing **Terayon** are detailed in our filings with the SEC, including our most recently filed form 10-K and 10-Q. We assume no obligation to update any forward-looking information provided here today. With that said, I will now turn the call over to Jerry for an overview of our business.

**JERRY CHASE, CEO, TERAYON COMMUNICATION SYSTEMS:** Thanks, Mark. Hello, everyone, and thank you for joining us for **Terayon's** Q1 2005 earnings conference call. As you can see from our earnings press release issued earlier today, **Terayon** had a good first quarter, showing notable progress in moving digital video to the center of our corporate strategy. In addition, we took important steps toward sustainable profitability. Let's begin our update with digital video applications.

Before going forward, I want to go back a little bit and lay out the context for our decision to become a digital video company. Back in October, it became clear that the digital video applications market was growing for cable companies and expanding into other verticals like broadcast and Telco. Our customers were beginning to migrate to all digital networks and making it a top priority as demand increased for all digital and IP-based services such as HD, video-on-demand and voice over IP.

New all digital networks also provide the basis for new advertising vehicles that deliver the same level of targeting and personalization that has fueled the growth in on-line ad spending. With these capabilities, our customers can begin to reclaim ad revenues beginning to be threatened by commercial skipping technologies like DVRs, as well as implement high quality, high value ad models not possible in the days of analog network. Together these changes indicated a shift in the video value chain. The needs of the market are shifting towards what **Terayon** does best, realtime video stream management over distributed architectures. This is why we moved digital video to the center of our strategy and developed a plan to act on these market shifts and build on our existing digital video leadership.

Our plan focuses on strengthening customer relationships, delivering new product innovations, building a stronger partner channel, keeping a key eye on cost management, and strengthening our senior leadership team. Customer feedback has been encouraging. In the first quarter of 2005, we grew digital video revenues to a record \$13 million. The fourth consecutive quarter of growth. This is more notable because, as many of you know, cable companies traditionally place fewer orders in the first quarter, making our growth over the previous quarter an encouraging sign.

We strengthened our market leadership in realtime video stream management through several new first quarter product innovations. In February, we introduced the IP-based CP7600G, a digital-to-analog

multichannel integrated edge decoder that enables cable companies to remove their analog distribution network, deliver all of their programming, both analog and digital, only once over the digital network and avoid the expense of deploying digital set top boxes to analog subscribers. This frees capacity to offer more programming in services like HDTV, video-on-demand, fast broadband – and fast broadband access, while still supporting analog subscribers. The customer response to the CP7600G has been most encouraging.

As I mentioned earlier, we see multiple signs that advertising models are changing. Over the past year we have delivered first-to-market technologies that enable new advertising capabilities like channel branding, overlay and local ad insertion, all in the digital domain. We moved ahead again in March with the introduction of industry first innovations for the DM 6400 Network CherryPicker. Our customers can now insert local targeted advertising directly into Mpeg-2 video streams carried over standard space IP networks. The DM 6400 uses gigabit ethernet technology to allow operators to locate ad servers and splicers at different points along the network, streamlining operational cost and overhead.

**Terayon** has made next generation ad solutions a key company initiative, delivering technology that enables more engaging video advertising and moves it closer to mass-scale personalization. We have also taken steps in recent weeks to strengthen our global partner relations -- relationships and sales reach to the launch of the **Terayon** partner program. With key companies, such as Harmonic, SeaChange, Tandberg, Chiron, and many others, we have the ability to integrate **Terayon** video solutions into a larger, broader range of applications, created and delivered by some of the world's leading video companies. Our partner program is strategic to us as it enables us to expand our global reach and access new vertical markets in distribution channels.

Now, let's turn our attention to home access solutions. In the first quarter, we revamped the long-standing **Terayon** strategy of building vertically integrated cable modems, as it no longer delivered a competitive advantage. Due to sale of our cable modem silicon intellectual properties to ATI, and the selection of Texas Instruments silicon and software as our primary source for customer premises equipment, we have strengthened our home access strategy, building our advantage on value-added functionality in new products. Further, both moves enabled us to improve our cost structure, enhance our products and focus valuable resources on our expanded digital video efforts.

During the first quarter, Wharf T&T, one of the fastest-growing six telecommunications network service operators in Hong Kong, chose **Terayon** voice cable modems for its major roll-out of residential voice-over, internet protocol, VoIP, telephone services. To deliver its new digital home line service, Wharf T&T is deploying **Terayon** embedded multimedia terminal adapters, eMTAs, and increased orders for eMTAs have improved our Q1 average selling price for home access products as they continue to represent a larger percentage of sales from quarter to quarter.

In April, **Terayon** eMTAs received packet cable certification, which is a key requirement of U.S. cable operators. The TJ 945 is now clear for use in operators growing VoIP deployment. By emphasizing profit, managing cost and enhancing the products with new data, voice and home networking functionality, home access solutions made a positive contribution in the first quarter. Despite a drop in gross revenues from the fourth quarter 2004, it continues to be a useful business for us.

Finally, let's turn our attention to our CMTS product line. We have entered into several customer service contracts with our CMTS customers, keeping the promise to continue support that we made back in October of 2004.

Due primarily to the decision to cease investment in CMTS, and the elimination of in-house proprietary cable modem chip development, we're on plan to reach personnel objectives. We began the first quarter 2005 as 255 and exited the quarter at 175. We continue to hire digital video professionals and expect staffing levels to increase above that 175 level. Another positive action during the first quarter was the addition of David Baranski as Vice President of Cable and Satellite Services in the America's region. We welcome David and believe he is already adding substantially to our advance as a digital video company.

While there is much work to be done, we are pleased with our progress during the first quarter. A strong second quarter pipeline indicates continued growth as we remain focused on driving to sustainable profits and positive cash flow. To do this, we will continue to invest in digital video, to strengthen our current cable market leadership position, and grow across associated vertical markets like satellite, broadcast and Telco. We'll build on our market-leading digital video applications, particularly in the area of advertising. We'll expand our strong video partner program to integrate our solutions into new types of video systems and markets, and we'll manage our home access business to re-establish profitable growth and cash contributions. By executing on these objectives, we expect to continue healthy improvements.

We will have a more diversified global customer base, enhanced market-leading products and improving cost management structure. With that, I'd like to turn the conversation over to Mark Richman, our CFO, again, who will review the financial results for the quarter in greater detail.

MARK RICHMAN: Thank you, Jerry. I am very pleased to announce that we have met or exceeded all previously-announced financial guidance for the first quarter of 2005. We report net revenues of \$26.4 million down from \$29.4 million in the fourth quarter of 2004. Most importantly, we grew our digital video revenue in the first quarter of 2005 to our record \$13 million, despite capital expenditure patterns that often experience reduced Q4 to Q1 CapEx activity. In addition, we launched the 7600G, and while we did not ship or record revenues in the first quarter, demand for the 7600G should support continued revenue growth beginning in the second quarter 2005.

The quarter-over-quarter decline in revenues is primarily attributable to a reduction in revenue from our legacy CMTS product line that reduced from \$3.1 million in the fourth quarter to \$1.7 million in the first quarter 2005. In addition, the cable modem business declined to \$11.6 million from \$13.7 million in the fourth quarter 2004. During the first quarter of 2005, we [inaudible] 270,000 total units of consumer premises for CPE equipment, consisting of 218,000 cable modems and 52,000 eMTA units. This compares to 346,000 total units of CPE equipment shipped in Q4 2004, of which 310,000 units were cable modem, and 36,000 eMTA units.

As eMTA units contribute a larger portion of our revenue contribution, we will need to obtain eMTA traction in the U.S. as all units sold were outside of the U.S. To obtain progress toward the goal, our eMTA product has been certified by cable labs in the U.S. and we're in the process of shipping units to customers for evaluation. With that higher mix of eMTA products, average unit sale prices for our consumer premise equipment increased to \$43 in the first quarter, compared to \$39 in the fourth quarter of 2004.

Our consolidated gross margin in Q1 2005 was \$13.3 million, or 50% of sales, compared to \$9.8 million, or 33% of sales, in the fourth quarter of 2005. The gross margin in the first quarter of 2005 was benefited by \$517,000 reversal of accrued warranty expenses related primarily to CMTS products. Excluding this benefit, the gross margin was \$12.8 million or 48%.

On a more comparative basis, the cost of product in Q4 2004 included excess and obsolete inventory charges of \$3.7 million related primarily to our decision to cease investment in the CMTS business. Excluding these charges, the gross margin in Q4 2004 was \$13.5 million, or 46%. The higher gross margin percentage in Q1 reflects the increased revenue mix coming from digital video solutions. We expect this trend to continue as the higher revenue mix from digital video solution revenues will increasingly benefit the gross margin percentage.

Total operating expenses were \$15.7 million, including \$1.3 million of expenses related to the severance, restructuring cost and asset write-offs, compared to \$18.2 million in the fourth quarter of 2004 which included \$2.8 million of expenses for severance, restructuring cost and asset write-off. Excluding severance, restructuring cost and asset write-off expenses, operating expenses went from \$15.4 million in the fourth quarter 2004 to \$14.4 million in Q1 of 2005. The operating expenses in the first quarter of 2005 were benefited by a bad debt recovery of approximately \$570,000, primarily related to the collection of CMTS receivables previously reserved.

Our headcount – our current headcount of full time equivalents has been reduced to 175 down from 255 at the end of Q4 2004, and from 325 as recently as the end of Q3 of 2003. We anticipate headcount to stabilize around 185 during the second half of 2005 as we replace contract workers with full-time employees and increase staffing in selected areas focusing on maximizing our video solutions opportunities.

As we have stated, the restructuring activities presented by these expenses are central to the Company's repositioning, moving digital video to the center of its strategic direction. During the second quarter of 2005, we anticipate to incur approximately \$500,000 to \$1 million of additional restructuring expenses, primarily attributable to planned and final CMTS personnel reductions related to the completion of CMTS software development.

Consequently, in conjunction with the planned personnel reductions, and elimination of any material – ongoing material restructuring charges, we anticipate that operating expenses to decline approximately \$1 million in the third quarter of 2005. Operating expenses will marginally increase due to targeted – targeted spending related to digital video R&D and marketing. As a result, we expect to obtain a quarterly cost structure in the range of \$13 to \$14 million by the third quarter of 2005.

Our net loss in the first quarter of 2005 was \$2.6 million or \$0.03 per share, compared to \$7.9 million or \$0.10 per share in the fourth quarter of 2004. Excluding the previously mentioned benefits of a reversal of warranty reserves and bad debt recoveries, we would have recorded a net loss of approximately \$3.7 million or \$0.05 a share, which we believe is a better indicator of our current period performance. This still compares favorably to our previously-announced guidance of a loss from \$3 to \$6 million.

As we stated in our last call, we recognize the need to better manage our cash resources, and ended the first quarter with a \$2 million increase in cash balances ending the quarter at \$100 million compared to \$98.9 million in the fourth quarter 2004. Based on results of operations, and excluding net cash proceeds from the

sale of our cable modem IP, our cash burn for the first quarter was \$5.8 million, a dramatic improvement over the \$14.1 million of cash used in fourth quarter of 2004. With limited capital expenditure requirements, we believe that our usage of cash will be in close parallel with our net income performance. Any additional usage of cash will be used to fund working capital requirements and cash outlays to retire previously accrued restructuring liabilities.

As of Q1 2005, the accrued liability for restructuring reserves on our balance sheet is \$4.6 million, that -- and we anticipate to consume a large part over the next two quarters. To manage cash, we need to focus in on managing working capital resources. Our day sales outstanding, or DSO, at the end of Q1 was 69 days compared to 62 days at the end of Q4 2004. Inventory turns were still low at 2.6 times as of the end of Q1 2005, compared to 3.3 times as of the end of Q4 2004. Both metrics driven by reduced cable modem sales contributing to excess inventory levels.

With regard to the sale of our cable modem semiconductor [IP-THEI], to date, we have collected \$8.9 million of cash proceeds from the transaction. As a result of offsetting various expenses in cash outlays against the \$8.9 million in proceeds, we currently have a \$6.2 million deferred gain on sale of assets. Due to the accounting treatment for transactions with multiple elements, we will not recognize the gain on sale of assets until the various elements of the transaction have been satisfied or deemed unobtainable. This gain which will be -- which will be non-operating, is anticipated to occur -- not to occur before the fourth quarter of 2005.

I would now like to offer the following guidance for the second quarter of 2005, based on the best information we have today. We expect total revenues in the range of \$28 to \$32 million with video revenues being in the range of \$16 to \$19 million and CPE equipment sales to be flat to slightly up. We expect our net loss to be in the range of \$3 million to break even profitability. Based on these results, our earnings per share will be in the range of a loss of \$0.04 to \$0.00 per share, based on an average of 77 million shares outstanding. Total operating expenses, excluding any restructuring charges, should be in the range of \$14 to \$15 million. The usage of cash and cash equivalents is expected to be between \$3 and \$6 million.

I would like to thank you for listening, and will now turn the call back to Jerry.

JERRY CHASE: I'm optimistic about **Terayon's** ability to focus and deliver favorably against our strategy and business model. Mark and I look forward to providing with you updates on our progress as we continue to transition **Terayon** to a video company. On that note, we would like to open the call up to questions. Today, in addition to Mark, I'm joined by Fabrice Quinard, head of our Digital Video Products, and we're here to address any questions you may have on our first quarter results. And Bill, our operator, I'm turning the call over to you so that we can begin our Q&A portion.

OPERATOR: Thank you very much, sir.

[OPERATOR INSTRUCTIONS.] Questions will be taken in the order they're received.

[OPERATOR INSTRUCTIONS.]

OPERATOR: We will wait one moment to compile a list of questions . And our first question comes from the line of Mr. [Rajiv Genveja] of Jefferies & Company. Please proceed.

RAJIV GENVEJA, ANALYST, JEFFERIES & COMPANY: Hey, guys, thanks for taking the call. Just a few questions to kind of throw out there. One, any update on the Adelphia lawsuit? Can we just assume that, given what's happened with Adelphia, it's no longer an issue? Two, on the 7600G, could you talk about how you're viewing the competitive landscape? It looks like there are a handful of competitors out there with similar products, so we'd be interested in hearing what sort of tracking you expect to take. And then finally, could you talk at all about the Telecom market, any penetration there, any success and just further -- further selling into that market? Thanks.

JERRY CHASE: Okay.

MARK RICHMAN: I'll take the first question. As a matter of policy, we don't want to get into a discussion of our lawsuits -- current litigation. But having said that, we still consider the case to be without merit. It is our hope as a company to continue the dialogue with Adelphia and hopefully reach a mutual acceptable resolution. The next question was with regard to the competitive nature.

JERRY CHASE: 7600G. We're -- we've heard some people announce that competitive products. We haven't seen a lot of that. We feel very happy with where we are in the 7600G. We're pleased with our quality, pleased with our performance, and we'll wait and see what comes out but so far, we're not seeing a lot of direct competition. And then, related to the Telco market, this is -- a couple of points to make here. We're definitely seeing some increased activity. And we're participating in that through our channel partners. This is -- as I alluded to in my earlier comments, one of the reasons that our partner -- our channel partners are

such a strategic value to us and we'll continue to work with them to make them successful. And, oh, by the way, it's probably the first application that the Telco operators will be looking to us for is advertising insertion. And we have a very elegant solution there that works quite well.

RAJIV GENVEJA: Ok, great. Thank you.

JERRY CHASE: Thanks, Raj.

OPERATOR: Thank you very much, sir. Ladies and gentlemen, your next question comes from the line of Mr. Alan Bezoza of Friedman, Billings, Ramsey. Please proceed.

ALAN BEZOZA, ANALYST, FRIEDMAN, BILLINGS, RAMSEY: Yeah, hi guys, great job on the cost controls here. And I wanted to start there. It looks like you laid off 80 people or so in the quarter. Was it at the very start of the quarter or was it the middle of the quarter? guess what I'm trying to get at is that, it seems like you're being conservative in your bottom line guidance given the margin, the mix shift toward the DVD line, or the CherryPicker line, and on top of that, layoffs that you had in the quarter. So it seems like you're being very conservative to the bottom line, unless I'm missing something.

MARK RICHMAN: You're right. That's a good point. That's a good question because the headcount reduction for the quarter from the beginning stand was fairly dramatic. Most of the head count reduction actually happened in January. In fact, we had planned for most of it to happen by the end of the year and carried some of it over into – into January. So, you're not going to see as a dramatic impact on the operating expense number. That's why our guidance, if you kind of dig into it, the operating expense number quarter-over-quarter, taking out the restructuring charges, really isn't a big dip. And where we expect to get some more meaningful decline in operating expense numbers really is going to be in the Q3 environment, where we'll make some additional planned headcount reductions with the remaining CMTS personnel that we have. But your observation is correct and it's because most of it happened early – at the beginning of the quarter.

ALAN BEZOZA: Ok, great. On your margin, you know, given the mix shift, pretty dramatic towards the CherryPicker line. Should we expect the continued up-tick in margins in the quarter?

MARK RICHMAN: On the margin, the pressure would be definitely toward the upside. We're still maintaining margin in the CherryPicker in the 65% range, which is very healthy. The 7600s will have – it's less of a value-added functionality, so the margins on it will be closer to the 50% range but still on the margin, we should see that – that video will continue to drive an improvement in the gross margin percentage.

ALAN BEZOZA: Ok, great. My last question, actually, just around visibility. With Harmonic and other re-sellers that are kind of distributing your product, how much visibility do they give you or are able to see on the indirect shelves, if you will? And then, in total, if you can give us of the – a percentage basis, is indirect sales of your – [in the digital video] product line.

MARK RICHMAN: Yeah, in Q1, it was a little bit of an anomaly, but a very high percentage, over 50%, went through Harmonic. In terms of our visibility, because we have such a close working relationship with Harmonic, we have a lot of the same visibilities that they do into the end users who are buying our product. In fact, many times we're working in conjunction with them in order to make the sale with our direct sales force, with the major MSOs. So, we do have – we do work closely with our distribution partners of which Harmonic, obviously, by Q1 was a major component of that, but they did a good job of selling in Q1 so they get – they get credit for that.

ALAN BEZOZA: Ok. Great. Thank you so much. Oh, I have one more question, was the regional breakout, if you don't mind telling us where they were?

MARK RICHMAN: Regional for?

ALAN BEZOZA: Sales.

MARK RICHMAN: I don't have the numbers in front of me but I can get pretty close. In terms of the video product, it was still, 95% of it, was within the U.S. If you look at the cable modem business, it's only about , in Q1, it was down to maybe 20% in the U.S. and 40% in Asia, 40% Europe, middle-east Africa.

ALAN BEZOZA: Great. Thank you so much.

MARK RICHMAN: Thank you.

OPERATOR: Thank you very much. Ladies and gentlemen, your next question comes from the line of Mr.

Anton Wahlman of Needham & Company. Please proceed.

ANTON WAHLMAN, ANALYST, NEEDHAM & COMPANY: Hey, some numbers here I just want to check on up or [inaudible] correctly. You said there was the \$517,000 of warranty reversal, that basically gets thrown back into cost of goods sold, right?

MARK RICHMAN: That's correct.

ANTON WAHLMAN: All right, and then you said you had a \$570,000 benefit. So, we should add back something to expenses then, and if so, where is that, G&A, S&M?

MARK RICHMAN: Yes, G&A.

ANTON WAHLMAN: Okay. Alrighty. Simple enough. Could you discuss a little bit the -- you mentioned gross margins here for the video product was in the neighborhood of 65%. And should we assume that the modems are still right about the 20% mark?

MARK RICHMAN: That's correct. Yes, it's more like 18% [that] probably is a better number. It's -- it's been creeping upward a little because the higher percent of the CP is -- eMTA is now a higher percent. and the eMTA's have a gross margin percent that's more in the low 20%, while the modem business itself is still around 18%, is kind of 15% to 20% range.

ANTON WAHLMAN: Okay. So, the blended average went up, but individually, the modems for eMTA's and modems as such, they were not going up.

MARK RICHMAN: That's correct. Pretty stable.

ANTON WAHLMAN: Okay.

MARK RICHMAN: It's -- it's just an issue of the blend, the mix of a higher weight of the eMTA product.

ANTON WAHLMAN: And let's confirm the numbers. You said 280 -- 218,000 modems, 52 telephone devices and last quarter, 310 plus 36. Is that what you said?

MARK RICHMAN: Well, last quarter was total units shipped was 270,000 units of which 218 were cable modem and 52,000 from eMTA's.

ANTON WAHLMAN: That was in 1Q, but 4Q you said 310 plus 36?

MARK RICHMAN: Correct.

ANTON WAHLMAN: Okay. Also, Jerry, you said something in your prepared comments, right at the beginning of modems, you had some comparative -- I couldn't quite hear what you said about having exited, was there something new there or no?

JERRY CHASE: Shouldn't be anything new. Oh, I -- this is -- are you referring to the sale of the silicon assets?

ANTON WAHLMAN: Yes, I just I couldn't hear quite -- I wasn't sure there was some new information there. Was it basically all the stuff that we have known --

JERRY CHASE: No, it's -- it's the same transaction.

ANTON WAHLMAN: Okay. Alright. That's fine.

JERRY CHASE: Earlier in the quarter. Just the silicon and I think we sold -- you might remember that we transferred our Ottawa facility and about 23 people went along with that transaction. But that's -- that's stuff that happened during the quarter but we had already talked about previously.

ANTON WAHLMAN: Okay. Also, in expenses, basically what we're talking about here is that in 2Q, basically, not a lot of change in the overhead, just down like half a million dollars or maybe slightly more? For overhead? And, then there's another drop from there of another -- close to a million dollars or so in 3Q. Is that roughly how we should look at the --

MARK RICHMAN: Yeah, I – a little bit of – I think this could be relatively flat from the numbers that you have in Q1 to Q2.

ANTON WAHLMAN: But if we –

MARK RICHMAN: Then the million dollar reduction is more of a Q3 event.

ANTON WAHLMAN: I – okay, if I add back the \$570,000, you're basically at \$15 million for Q1, and then it said something about 14 and a half.

MARK RICHMAN: We will get some benefit of the lower headcount. It wasn't – a lot of it was front ended on the quarter. But we still have some reduction in the headcount number as well.

ANTON WAHLMAN: Okay, so – so say you did about 15 here in March, and 14 and a half in June, and then some almost as low as 13 and a half for September, does that – that sound about fair?

MARK RICHMAN: That's close to the guidance that we're providing.

JERRY CHASE: There's another 15 to 20 people that are scheduled to leave, and have been notified, at the end of June, related to CMTS. I think we had mentioned, back in the fall, that one of our key priorities was to take care of our existing CMTS customers. So we've been keeping people on board to finish the software, and to be able to support contracts and so on. But about 15 to 20 people will be leaving at the end of the June. The [delta] there is we've been hiring – some of those – Fabrice has been hiring some of those people into his team on the video side.

ANTON WAHLMAN: Now Fabrice, clearly there hasn't been much Telco yet in the mix. But is it fair to say that you really haven't sold almost any Telco gear to the North American market yet, or has it been one of those, one deal in England, one deal in Canada type of thing for the broader CherryPicker line? Or where do you stand in terms of penetration there into the Telco market?

FABRICE QUINARD, VP, **TERAYON** COMMUNICATION SYSTEMS: Well, we've been selling, I would say a little bit for – to those operators who can actually use Mpeg-2 on their network today. The others are waiting for the Mpeg-4/[inaudible] technology to mature and we expect it to be ready on the second half of this year.

ANTON WAHLMAN: Okay. So, the only one who's on Mpeg-2 in the U.S., of course, when it comes to the big guys, has been Verizon which just got started. Have you been designed into that project or no?

FABRICE QUINARD: I'm not sure I can actually specifically answer that question. I – what I can tell you is that we are actually designing with some major Telcos out there.

ANTON WAHLMAN: Okay. Generally speaking, have you been supplying to any of – kind of the the very -- the smaller IOC's that have been doing standard definition Mpeg-2 over ADS lines? Is that where roughly -- where you've been selling to date?

FABRICE QUINARD: Correct.

ANTON WAHLMAN: Alright. Well, that's clear. Thank you.

JERRY CHASE: Thank you, Anton.

OPERATOR: Thank you very much, sir. Ladies and gentlemen, your next question comes from the line of Mr. Greg Weaver of Kern Capital. Please proceed.

GREG WEAVER, ANALYST, KERN CAPITAL: Could you talk about some of your larger customers in the quarter for the digital video business?

MARK RICHMAN: The largest customer still continues to be Comcast. Comcast, we still believe, is really the market leader in terms of – of their build-out to an all digital network, and they're continuing to lead the industry. We're getting additional traction along other MSO's but the majority, in terms of our revenue, is still being driven by Comcast.

GREG WEAVER: And Mark, I think you mentioned about Harmonic. Did you say they were 50% of your digital video revenue in the quarter?

MARK RICHMAN: Actually, it was actually even higher than that number. It was -- it was over 50%. I don't have the number in front of me.

GREG WEAVER: Okay. And in terms of your sequential digital video growth, I guess -- what portion of that do you think will be driven by the 7600G?

MARK RICHMAN: Well, we're looking at probably in the range of three to four million at this point.

GREG WEAVER: Okay. And you've -- you're currently selling that? It's ready to go now?

MARK RICHMAN: Yes, we are, actually.

GREG WEAVER: Okay. And I guess, just lastly, on the modem business, my understanding was that when you switched to the Texas instrument chip that there should be a -- some kind of profit improvement there. But you said that the margins were steady, is that just because it is offsetting ASP erosion, or --?

MARK RICHMAN: It's not an issue of gross margin improvement, because there's really no big advantage in terms of the cost of the box or the cost of the materials by going to TI. It is an issue of our ability to -- to eliminate a lot of our cost structure associated with the chip development. If you look at that which is directly related to the cable modem business,. So by -- by not investing in silicon development, it improves the economics of that product line.

GREG WEAVER: Understood. Great. Thank you.

JERRY CHASE: Thanks, Greg.

OPERATOR: Thank you very much, sir. Ladies and gentlemen, your next question comes from the line of Mr. [Nicholas Papagiorgiou] of Melleos Capital Management. Please proceed.

NICHOLAS PAPAGIORGIOU, ANALYST, MELLEOS CAPITAL MANAGEMENT: Good evening. How are you?

JERRY CHASE: Hi, Nicholas.

NICHOLAS PAPAGIORGIOU: Got a question regarding Comcast and Harmonic. In the previous quarters you've mentioned that both Comcast and Harmonic were actually a 10% customer. This quarter is Comcast a direct 10% customer? Or most of Comcast [inaudible] actually coming through Harmonic right now?

MARK RICHMAN: For Q1, that was the case. So, Comcast was not a 10% customer.

NICHOLAS PAPAGIORGIOU: Okay.

MARK RICHMAN: And a good portion of Harmonic was ultimately sold to Comcast.

NICHOLAS PAPAGIORGIOU: Okay. I mean, can you shed a little bit of light on that and how did that change your relationship with Harmonic and how will it change the relationship going forward, because listening to Harmonic's conference call, basically, I mean they basically said that because of something like that, we assume that it was **Terayon**, they basically got a very big hit in the gross margins, and they've actually said that that will be taken care until -- by Q3. I mean, has that -- can you shed some light on how this -- the relationship change and how do you see it going forward?

MARK RICHMAN: Yes. The -- Harmonic is a really good customer of ours and partner of ours and we continue to work very closely together. And you'll -- [Nicholas], you'll have to speak to them specifically about sort of how they see their business plan rolling out, but they're very valuable customer and partner to us.

NICHOLAS PAPAGIORGIOU: I mean, is what Comcast is doing, is that some kind of a trend that you see, that the biggest -- the bigger MSO's in order to -- the big Telcos actually instead of dealing directly with you and maybe other medium or small companies, they would rather actually be -- an integrator or a [re-seller]?

MARK RICHMAN: We believe that -- we believe that channel partners are very important to not only the cable market but also to the other verticals. And what we try to do is make it very easy for the end customers and for our channel partners to combine our products into an overall systems offering. So, we have an important piece of the architecture, a very important piece of the architecture, but not the whole thing, and so, we try to make it very easy for our partners and for the end customers to go through our partners. And, as far as a trend, I think that's what we're seeing. I think as you look across the verticals, the larger players

would like to go with large companies. Occasionally, they want to come direct to us and we try to make that a very easy experience as well.

NICHOLAS PAPAGIORGIOU: Thank you.

MARK RICHMAN: Thank you, [Nicholas].

OPERATOR: Thank you very much, ladies and gentlemen. Your next question comes from the line of Mr. Tim [Savageau] of Merriman Curhan Ford. Please proceed.

TIM SAVAGEAU, ANALYST, MERRIMAN CURHAN FORD: Good afternoon. Nice quarter, guys. Can you hear me?

JERRY CHASE: Turn you up a little bit, Tim. Try us again.

TIM SAVAGEAU: Okay.

JERRY CHASE: That's better.

TIM SAVAGEAU: Is that working all right?

JERRY CHASE: Yes.

TIM SAVAGEAU: Headsets, what are you going to do? Couple of questions. First on the gross margin, if I back out the kind of cable modem commentary you gave us, it looks like they were closer to 75 than 65. Are you sort of in that – 70 to 75 has been your commentary on the past in digital video. Is that a change or can you clarify that?

MARK RICHMAN: That's a good question. There's – one of the things that is hard for us to predict is, that when we sell the box initially, the gross margins are going to be closer to that 65% range. What improves the margin that we actually obtained is – which is hard to predict, is the number of software upgrades being requested by our customers. Now that we have something closer to a critical mass of boxes that are out in the field, as a customer, we sell a soft – software license key for additional functionality. That's at 100% margin. So, what we don't know and it's hard for us to predict, is that weighting of that 100% margin with more than 65% margin as the box goes out the door.

TIM SAVAGEAU: Okay, fair enough. And maybe what's affecting that is – I mean – not putting anything in for CMTS, are you -- are those revenues – you signed that for more than it cost you on the CMTS side this quarter as you wind it down, or what kind of margin?

MARK RICHMAN: Yes, the CMTS margin was, oh gosh, close to 100%, it wasn't quite 100%. But I would say at about 75% margin. The reason for that is a lot of that inventory was reserved at year-end.

TIM SAVAGEAU: Okay, that'll do it.

MARK RICHMAN: And [inaudible] additional sales. It was at higher margins.

TIM SAVAGEAU: Okay. Fair enough. Also, also on the ATI transaction, has that cash been received or is that – what's the status of that?

MARK RICHMAN: That's correct. It is in our bank account.

TIM SAVAGEAU: Good. And I think everything else has been answered. Oh, one final question. Outside of Harmonic, were there any, sort of significant OEM partners for digital video in the quarter or – and can you kind of, maybe discuss more broadly whether you're looking to add partners there and, if so, in what direction, Telco or otherwise? Or maybe you can just comment a little bit broadly on partners outside of Harmonic.

MARK RICHMAN: Not significant in terms of the dollar volume we did with it, but significant in terms of the dollar volume that we could and the strategic presence that they bring us across the verticals. I think what you can do is – what you could expect to see from us is we would be looking to add an additional channel partner in the broadcast segment for the U.S. piece, and we would be looking to add partners, onesies, twosies, that would help us cross into the Telco market. We've been in those discussions for a while. And I think that's what you can expect to see from us. We might be talking as many as three partners on the Telco side in order to address the international component, but this is where we'll be focusing.

TIM SAVAGEAU: Do you have a time frame you'd like to specify on that activity?

MARK RICHMAN: These are big guys and you know, so I don't want to predict when we can sort of push them along. You know, so far, so good. The discussions are at the nascent [phase], and we'll keep you posted as they allow us to.

TIM SAVAGEAU: Okay . Thank you very much.

OPERATOR: Thank you very much sir. Ladies and gentlemen, your next question comes from the line of Mr. George [Gienaricas] of American Express. Please proceed.

GEORGE GIENARICAS, ANALYST, AMERICAN EXPRESS: Hey, guys.

JERRY CHASE: Hey, George.

GEORGE GIENARICAS: Just had a quick question on the NOL, I'm sort of curious as to whether you can share with us the size, the sort of analysis that you've done on that. Thank you.

MARK RICHMAN: Actually, kind of working on that as we speak. I know the number is close to 650. What I'm trying to do is is, to do a drill down on the number to understand where they are by geographic location and any kind of limitations on their use. So, that work is actually being done as we speak. And I can follow up with you, George, when I get more some information at a later date. Thanks a lot. Okay.

OPERATOR: [OPERATOR INSTRUCTIONS.] Your next question is a follow-up from the line of Mr. Anton Wahlman of Needham & Company. Please proceed.

ANTON WAHLMAN: Fabrice, two things. First of all, when – about – almost 18 months ago when kind of the growth in the CherryPicker business resumed with a new application for digital video [inaudible], the first sort of anchor customer there was FOX, and the presumption almost was, at the time, that you would think that other of the major broadcasters would kind of copy this thing and I mean if FOX has to do it, why wouldn't the other major broadcasters have to do it. Can you give us a little update on where the other major broadcasters are? Are they going to find a different solution or do you think it's still, sort of inevitable that they're going to have to go down the same path that FOX did almost a year ago?

JERRY CHASE: I'm going to field that first, Anton, this is Jerry, too. Then I'll turn it over to Fabrice. We're still pleased with the progress that we're making with FOX. We continue to work very closely with them. We're not satisfied with the reach that we're getting into the broadcast vertical. And that's one of the reasons that you can expect us to see – to try to expand in there.

We do believe the – the solutions that we have are applicable, we're seeing a lot of interest around the FOX model. I think many of you might have seen what some of the advertising or the articles that are being done by FOX describing some of the additional capabilities . And of course, **Terayon**'s technology underlies that, so we're real proud of what's going on there. But market access for us is an issue in broadcast and Telco and a variety of spots. So, Fabrice, any comments?

FABRICE QUINARD: I would add that we are doing several field trials. We'll see whether or not this leads into sales.

ANTON WAHLMAN: The other question is a little bit more broad. Isn't as strategic in nature. Now virtually every company that does anything in video on planet Earth is, like, re-selling you stuff to a greater or lesser extent. There are obvious exceptions with the bigbands and the RGB's of this world. So, with you having partners that do most of the other pieces in video, I mean, how do you expand the Company and the product range at some level? I mean, at some point, I figure you're going to try to expand it to encoders then the Tanbergs and the Harmonics would freak out, and if you're already expanding to some other kind of video product then some other partner would throw a fit. So, I mean, where does the product line go? Obviously, you have a leading role in what you've got. Now everybody wants it and everybody needs it, but where do you go with this unless this thing, just in and of itself becomes such a large category that – that is all you need?

MARK RICHMAN: Yeah, we're on record with our channel partners as saying we do not and will not compete with them. You will not see us going into encoding. You will not see us going into [edge-quam] devices and so on. What you will see us doing is continuing to work with our existing hardware platform for as long as we can, and to continue to offer additional software applications on that – on that hardware platform and some of you guys have heard me use the example that you can have two CherryPickers sitting directly next to each other. They look the same, they have the same inherent capability and one of them sells for say \$40,000 and one of them sells for \$80,000, and the reason is the number of software keys that

have been activated inside the -- inside the unit. So, what you'll see us do is continue to work on our software model. I think Fabrice is trying to hire another ten or 12 people in terms of software applications engineers and to continues to deepen and widen the space we're in. But we do not and will not compete with our channel partners.

ANTON WAHLMAN: I understand that. Well, that's helpful. Thank you.

MARK RICHMAN: Thanks, Anton.

OPERATOR: Thank you very much, sir.

[OPERATOR INSTRUCTIONS.] Your next question is another follow-up question from Mr. Alan Bezoza of Friedman Billings Ramsey. Please proceed.

ALAN BEZOZA: Yes, sorry, just had one - two quick follow-ups. First on the CMTS sales, how should we think them winding down. [It's] a little bit better than I would have thought this quarter. Is it a smooth transition or is going to fall off a cliff point? Kind of, some kind of color. And then the last part is on you EPS guidance. Does that include the restructuring charges of 500K a million expected next quarter?

MARK RICHMAN: With the second part, yes, it does include the restructuring -- charges. So, it is the true reported -- anticipated reported net income number. With regard to the CMTS, we had about a million seven or revenue in Q1. We don't think we're going to have any kind of material go forward -- the amount of material sales generated [by CMTS] is not going to happen. But you can count on probably, still a run rate of about half a million of at least a quarter because we do have existing service contracts that are in place that will still generate the CMTS -- that define the CMTS revenue.

JERRY CHASE: What we've done there is you probably going forward, you'll hear us talk about it a lot less. And the reason is that, as we discussed back in the fall, we recognized that we were in a delicate position and needed to support our customers in terms of service contracts which we're doing. So, for example, with the large operator whose name I won't mention, we just signed a one-year support contract with an option to renew for years two and three and we'll continue to do that around the world wherever we sold CMTS, but sort of on the equipment side, practically speaking, we'll manage that as a -- as a support business. We -- we'll sell inventory where we can and when we can, but it is not integral to who we are and what we're doing. And the only side note I would say is that we've kept all of our intellectual property there, so we'll be looking for ways to combine that with our video piece, but as a stand alone business, it is just not going to be a big part of us going forward.

ALAN BEZOZA: Fair enough. So, you expect that then the service contracts to be around half a million a quarter, is that what you said, and then any kind of equipment on top of that will be minimal?

MARK RICHMAN: That'd be correct.

ALAN BEZOZA: Great. Thanks again.

MARK RICHMAN: Thank you.

OPERATOR: Thank you very much, sir.

[OPERATOR INSTRUCTIONS.] Our next question comes from the line of Mr. Timm Bechter of Legg Mason.

TIMM BECHTER, ANALYST, LEGG MASON: I just was wondering if you could describe how your inventory levels have changed from the last quarter to this quarter, and what the various products are in inventory now versus what they were a quarter or two ago?

MARK RICHMAN: I don't have a complete breakout in front of me. The reason that -- that the [turns] are so low is that the decision to make the purchases on the cable modem side really occurred mostly in late summer of last year. And we do know that with our decision to cease investment with the CMTS business that it did have a negative impact on our cable modem sales. And so, those purchases were made when the forecast looked a bit different than what it -- what reality turned out to be. The good news is is that we believe that there is virtually no obsolescence risk associated with this inventory. So over the next couple of quarters we'll be able to wind it down. And that number is probably 20 million in total of the inventory, with the remainder being video inventory.

TIMM BECHTER: All right. Thank you.

MARK RICHMAN: You're welcome.

OPERATOR: Thank you very much, sir. And at this time, ladies and gentlemen, our Q&A session has concluded. I'd love to turn the call back over to our management for any closing remarks they may have.

JERRY CHASE: Okay. I think that's it from our side. And, happy that everyone joined us and look forward to talking with you again next quarter.

OPERATOR: Thank you very much, gentlemen. Thank you, ladies and gentlemen for your participation in today's conference call. This concludes the presentation and you may now disconnect. Have a good day.

[CCBN reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES CCBN ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS. ]

Document FNDW000020050517e153002v7

# EXHIBIT 49

**FORM 4****UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

Check this box if no longer subject to Section 16, Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**  
Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *	2. Issuer Name and Ticker or Trading Symbol TERAYON COMMUNICATION SYSTEMS [TERN]			5. Relationship of Reporting Person(s) to Issuer (Check all applicable) ____ Director ____ 10% Owner ____ Officer (give title below) <input checked="" type="checkbox"/> X Other (specify below) Former Director		
(Last) (First) (Middle)	3. Date of Earliest Transaction (Month/Day/Year)			6. Individual or Joint/Group Filing (Check Applicable Line) <input checked="" type="checkbox"/> Form filed by One Reporting Person <input type="checkbox"/> Form filed by More than One Reporting Person		
4988 GREAT AMERICA PARKWAY	10/29/2003					
(Street)	4. If Amendment, Date Original Filed (Month/Day/Year)					
SANTA CLARA, CA 95054						
(City)						
(State)						
(Zip)						

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price
Common Stock	10/29/2003		M		11,041	A	\$2.93 11,271
Common Stock	10/29/2003		M		2,650	A	\$2.93 13,921
Common Stock	10/29/2003		M		2,650	A	\$2.93 16,571

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned  
(e.g., puts, calls, warrants, options, convertible securities)**

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficially Owned Following Reported Transaction (Instr. 1)	10. Form of Derivative Security: Direct (D) or Indirect (I)	11. Name of Beneficiary Owner (Instr.)

## Ownership Submission

Page 2 of 4

			Code	V	(A)	(D)	Exercisable	Expiration Date	Title	Number of Shares	(s) (Instr. 4)
Non-Qualified Stock Option (right to buy)	\$2.45	05/28/2003	A	43,000			(1)	05/28/2013	Common Stock	43,000	\$2.45 43,000 D
Non-Qualified Stock Option (right to buy)	\$2.93	10/29/2003	M				(1)	05/22/2012	Common Stock	11,041	\$2.93 25,959 D
Non-Qualified Stock Option (right to buy)	\$2.93	10/29/2003	M				(1)	05/22/2012	Common Stock	2,650	\$2.93 23,309 D
Non-Qualified Stock Option (right to buy)	\$2.93	10/29/2003	M				(1)	05/22/2012	Common Stock	2,650	\$2.93 20,659 D
Non-Qualified Stock Option (right to buy)	\$6.52	07/31/2001	A				(1)	07/31/2011	Common Stock	25,000	\$6.52 25,000 D
Non-Qualified Stock Option (right to buy)	\$6.8125	05/17/2001	A				(1)	05/17/2011	Common Stock	74,000	\$6.8125 74,000 D

buy)									
Non-Qualified Stock Option (right to buy)	\$22.625	05/13/1999	A	37,000	(1)	05/13/2009	Common Stock	37,000	\$22.625
Non-Qualified Stock Option (right to buy)	\$66.375	06/13/2000	A	37,000	(1)	06/13/2010	Common Stock	37,000	\$66.375

### Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SCHAEP CHRISTOPHER J 4988 GREAT AMERICA PARKWAY SANTA CLARA, CA 95054				Former Director

### Explanation of Responses:

(1) Shares granted from the 1998 Non-Employee Directors' Stock Option Plan. Thirty-three percent (33%) of the shares subject to this option shall vest on the first (1) anniversary of the Grant Date and one thirty-sixth (1/36) of the shares shall vest monthly thereafter over the remaining 24 months.

### Signatures

/s/ Rachel Halpern for Christopher J Schaepe

\*\*Signature of Reporting Person

Date

10/30/2003

\* If the form is filed by more than one reporting person, see Instruction 4(b)(v).  
 \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Ownership Submission

Page 4 of 4

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

# EXHIBIT 50

**FORM 4****UNITED STATES SECURITIES AND EXCHANGE COMMISSION****Washington, D.C. 20549**

Check this box if no longer subject to Section 16 Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *	2. Issuer Name and Ticker or Trading Symbol TERAYON COMMUNICATION SYSTEMS [TERN]		
(Last) <b>4988 GREAT AMERICA PARKWAY</b>	3. Date of Earliest Transaction (Month/Day/Year) <b>10/31/2003</b>		
(First) (Street) <b>SANTA CLARA, CA 95054</b>	4. If Amendment, Date Original Filed (Month/Day/Year)		
(City) (State) (Zip)			

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)		5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)	
				Code	V	Amount	(A) or (D)	Price	
Common Stock	10/31/2003		S	5,400	D	\$6.84	17	11,171	D
Common Stock	10/31/2003		G	8,200	D	\$6.91	(L)	2,971	D

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned  
(e.g., puts, calls, warrants, options, convertible securities)**

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficially Owned Following Reported Transaction (s)	10. Number of Derivative Securities Beneficially Owned Following Reported Transaction (s)	11. Nature of Indirect Beneficial Ownership (Instr. 4)
					Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title Date	Amount or Number of Securities Owned (Instr. 4)

**Reporting Owners**

Reporting Owner Name / Address		Relationships		
Director	10% Owner	Officer	Other	
SCHAEP CHRISTOPHER J 4988 GREAT AMERICA PARKWAY SANTA CLARA, CA 95054				Former Director

**Explanation of Responses:**

(1) Shares disposed as irrevocable gift as of October 31, 2003

**Signatures**

/s/ Rachel Halpren for Christopher J Schaepe

\*\*Signature of Reporting Person

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

- \* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

# **EXHIBIT 51**

**FORM 4**

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**
**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**  

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

## (Print or Type Responses)

1. Name and Address of Reporting Person *	2. Issuer Name and Ticker or Trading Symbol TERAYON COMMUNICATION SYSTEMS [TERN]			5. Relationship of Reporting Person(s) to Issuer (Check all applicable)		
SCHAEPPE CHRISTOPHER J				<input type="checkbox"/> Director	<input type="checkbox"/> 10% Owner	
(Last) (First) (Middle)				<input type="checkbox"/> Officer (give title below)	<input checked="" type="checkbox"/> X Other (specify below)	
4988 GREAT AMERICA PARKWAY	3. Date of Earliest Transaction (Month/Day/Year) 11/03/2003			Former Director		
(Street)						
SANTA CLARA, CA 95054	4. If Amendment, Date Original Filed (Month/Day/Year)			6. Individual or Joint/Group Filing (Check Applicable Line)		
(City)				<input type="checkbox"/> X Form filed by One Reporting Person <input type="checkbox"/> Form filed by More than One Reporting Person		
(State)						
(Zip)						

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
Common Stock	11/03/2003		S	2,600	D	\$6,891	371
Common Stock	11/03/2003		S	200	D	\$6,98	171
						D	

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned  
(e.g., puts, calls, warrants, options, convertible securities)**

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficially Owned (Instr. 3 and 4)	10. Ownership Form of Derivative Security: Direct (D) or Indirect (I) (Instr. 4)	11. Nature of Indirect Beneficial Ownership (Instr. 4)
						Date	Expiration	Amount or			

**Reporting Owners**

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SCHAEPPE CHRISTOPHER J 4988 GREAT AMERICA PARKWAY SANTA CLARA, CA 95054				Former Director

**Explanation of Responses:****Signatures**/s/Rachel Halprn for Christopher J Schaepe

\*\*Signature of Reporting Person

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

\* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

11/04/2003

Date